Annual Report 2010

LIVE

2.1m
square kilometres covered by the Next G™ network

More than
80,000
customers visit a Telstra store every day

1.7m
wireless broadband customers

Communicating with our Shareholders

Our online Investor Centre **www.telstra.com.au/abouttelstra/investor** is an important tool for our shareholders where you can access all the latest news, information and shareholder communications faster. If you are an e-shareholder, we will let you know when there is something important for you to view or download.

Telstra's 2010 Annual Report is available to all shareholders on our investor website at **www.telstra.com.au/abouttelstra/investor/annual-reports**. To receive a hardcopy of the statutory Annual Report (free of charge) you can call our Share Registry on 1300 88 66 77 and request the report be sent to you. You may also update your communication election online to receive future copies of the Annual Report. Visit our Share Registry's website **www.linkmarketservices.com.au/telstra**, select the 'communication options' menu and follow the prompts.

Online Communications

Telstra encourages shareholders to elect to receive their communications electronically. By providing your email address you will receive your dividend statements, Notice of the Annual General Meeting and Shareholder Updates (including summary financial information) by email. This is also important if we want to communicate with you at short notice in relation to current issues.

To become an e-Shareholder simply:

1. Go to **www.linkmarketservices.com.au/telstra**
2. Enter your Shareholder Reference Number (SRN) or Holder Identification Number (HIN), your surname or company name and post code **(you can find your SRN/HIN on your latest dividend statement)**
3. Click on the Telstra Corporation Limited link
4. Select YES "I would like to become an e-shareholder"
5. Enter in your email address and select Update

More than

100m

bills sent out each year

7m

Australians use a Sensis product every week

300,000

calls handled each business day through our contact centres

WORK

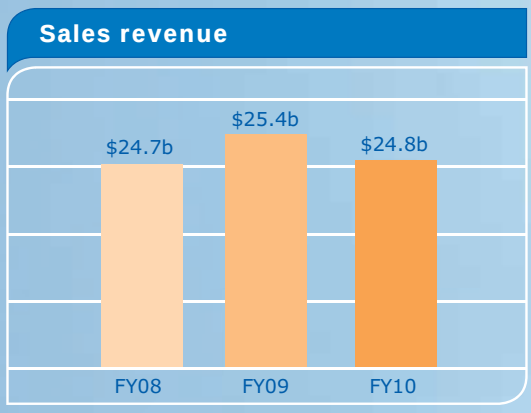
Five year financial summary

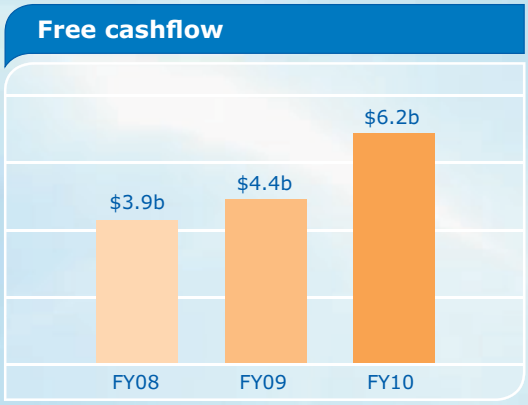
	2010 $m	2009 $m	2008 $m	2007 $m	2006 $m
Sales revenue	**24,813**	25,371	24,657	23,673	22,712
EBITDA[1]	**10,847**	10,948	10,416	9,861	9,575
EBIT[2]	**6,501**	6,558	6,226	5,779	5,497
Profit for the year after non-controlling interests	**3,940**	4,076	3,711	3,275	3,183
Dividends declared per share (cents per share)[3]	**28**	28	28	28	34
Total assets	**39,282**	39,962	37,921	37,837	36,208
Gross debt	**16,031**	17,036	16,285	15,547	13,792
Net debt	**13,926**	15,655	15,386	14,724	13,102
Total Equity	**13,008**	12,681	12,245	12,580	12,834
Accrued capital expenditure	**3,471**	4,598	4,897	5,879	4,479
Free cashflow	**6,225**	4,365	3,855	2,899	4,579

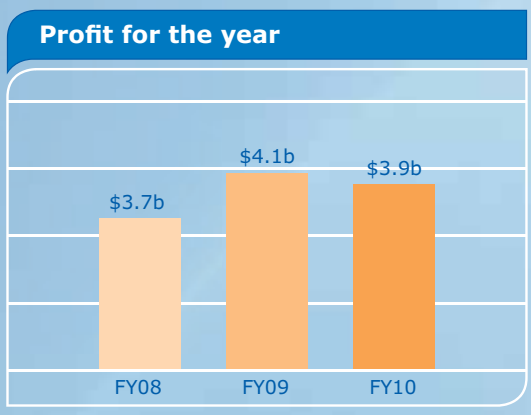
(1) Operating profit before interest, depreciation and amortisation and income tax expense. EBITDA is used as a measure of financial performance by excluding certain variables that affect operating profits but which may not be directly related to all financial aspects of the operations of the company. EBITDA is not a measure of operating income, operating performance or liquidity under A-IFRS. Other companies may calculate EBITDA in a different manner to us.

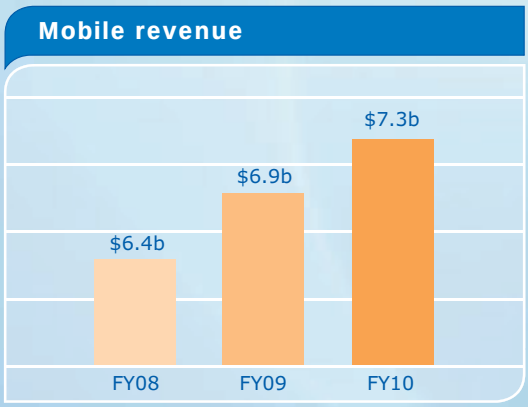
(2) EBITDA less depreciation and amortisation.

(3) Dividends declared in 2006 include a 6 cent special dividend paid with the interim dividend.









Catherine Livingstone AO Chairman

David Thodey Chief Executive Officer

Dear Shareholders

2010 was one of the most significant years in your company's history as we progressed discussions on the National Broadband Network, and we are grateful for your support over this period.

We are attaching details of our latest full year financial results and we would like to give you an understanding of how the business has performed over the last year. You will also find out about some of the important work we do in terms of being a good corporate citizen as well as some stories from our key business units within the company.

Financial Highlights

Despite the challenging market conditions the company faced last financial year, Telstra met its business performance guidance issued in February 2010 and maintained its fully-franked dividend for the year of 28 cents per share. We also saw improving momentum in the business in the second half of the year.

In financial year 2010, sales revenue declined 2.2% to $24,813 million. Operating Expenses (before Depreciation and Amortisation) declined by $485 million or 3.3% to $14,184 million as the company increasingly focused on cost control and productivity. Importantly we exceeded our guidance on free cashflow with a significant increase of 42.6% from the 2009 financial year to $6,225 million.

At a product level, we have continued to see growth in mobiles and IP products partially offset the declines in our traditional fixed line revenue. Mobile services revenue grew 5.9% to $6,461 million which included an accelerated growth of 7.1% in the second half, again evidence of the value of our network investments. While fixed internet revenue declined by 0.7% this year, we added 11,000 fixed broadband customers in the second half of the year following the introduction of new bundles and broadband pricing which turned around customer loss in the first half.

Strategy

Telstra's greatest asset is our customer base, and our strategy is centred around satisfying those customers. Telstra has lost customers over the past year and in response to the erosion of our customer base we saw two strategic options.

STRATEGY

We will be focused on four key initiatives:

1. **Continue to improve customer satisfaction;**
2. **Simplify our business to reduce costs;**
3. **Compete to retain and acquire customers leveraging our network leadership; and**
4. **Invest in long-term growth.**

We could focus on maximising cash in the short-term, cut costs and continue to lose market share, or take a long-term view by investing in customer service, simplifying the business and competing effectively to retain and acquire customers. We must prepare for future opportunities by investing in innovation and differentiation.

Outlook

2011 is a transition year for Telstra and our strategy is to invest in operational excellence to prepare the company to compete in the future.

For the 2011 fiscal year, we expect an increase in the customer base with flattish revenue but because of our investments, the company expects a high single digit percentage decline in EBITDA. We also expect free cashflow of between $4.5 and $5 billion*. The benefits of this necessary investment will become apparent from 2012.

Broadband

With the election result now known, Telstra has certainty that building the National Broadband Network will be retained as a public policy objective and our negotiations with NBN Co and the Government towards finalising definitive agreements on the NBN will continue. We are committed to engaging constructively with the Government across our many areas of common interest, including the NBN and regulatory reform. As always our obligation will be to represent the interests of Telstra investors, customers and staff.

Customer Satisfaction

At Telstra, we are driving to become a true service leader, focused on delivering a great experience for our customers every time. Customer satisfaction is a key priority for us and we know that our customers must see value in everything we offer.

Over the past year, we have listened to more than 700,000 Australians who have told us what they think of our service and the products we offer.

OUTLOOK

A commitment to improve customer service and satisfaction is at the heart of our strategy as customer behaviour changes.

We believe our strategy is in the best interests of shareholders as we manage the business for sustainable future growth, not just for the short-term.

* Guidance assumes wholesale product price stability, no additional impairments to investments and excludes any proceeds from the sale of businesses

SERVICE

We are prepared to work hard to win back the trust and respect of our customers. Such a fundamental change in culture and customer relationships will take time so this is just the start. We will change many of the ways we do business, and more people will say that Telstra has changed for the better.

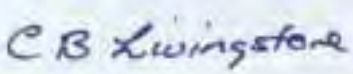
In response, we have launched new customer service initiatives such as weekend technician appointments and free calls to our main service and support numbers. We have also recently introduced the ability to contact us 24/7 for sales and support which is a new initiative that will make Telstra the only full-service telco to offer such a sales service. A dedicated team to manage all service changes from start to finish when our customers move house has also been established. This work is never completed, we recognise that further improvement to customer service is needed and we will continue to strive for ever more satisfied customers and fewer complaints.

Corporate Citizenship

At Telstra, we believe we do more than just deliver telecommunications services. We are part of the fabric of the society in which we operate. Through our products and services we can improve the lives of people - in their communities, both metropolitan and rural, in business and with their families. Our vision is to improve the way people live and work through connecting them.

For example, we became the first Australian company to win the prestigious Catalyst Award, an annual international award for initiatives that support and advance women in business. We also launched the Telstra Reconciliation Action Plan which includes the recruitment of qualified Indigenous candidates for up to 43 traineeships in Telstra, full integration of Indigenous suppliers into Telstra's procurement practices and the employment of a manager of Indigenous Employment Programs within Human Resources to increase attraction, recruitment and retention of new Indigenous employees.

As always, we thank you for your support and commitment as a shareholder. We remain committed to keeping you informed of any significant developments in the company as we lead this great Australian company into the next chapter of its exciting history.



Catherine B Livingstone AO Chairman

David Thodey Chief Executive Officer

BOARD OF DIRECTORS

Pictured from left to right: John Zeglis, Geoffrey Cousins, John Stewart, Steven Vamos, David Thodey, John Mullen, Catherine Livingstone, Russell Higgins, John Stocker, John Stanhope. Absent: Nora Scheinkestel.

Catherine B Livingstone
AO, BA (Hons), Hon DSc (Murdoch), Hon DBus (Macquarie), FCA, FTSE, FAICD
Ms Livingstone joined Telstra as a non-executive Director in November 2000 and was appointed as Chairman on 8 May 2009. She is the Chairman of the Nomination and NBN Committees and a member of the Audit, Remuneration and Technology Committees.

David I Thodey BA, FAICD
Mr Thodey became Chief Executive Officer and an executive Director on 19 May 2009.

Geoffrey A Cousins
Mr Cousins joined Telstra as a non-executive Director in November 2006. He is a member of the Nomination and Remuneration Committees.

Russell A Higgins AO, BEc, FAICD
Mr Higgins joined the Telstra Board as a non-executive Director on 15 September 2009. He is a member of the Audit and NBN Committees.

John P Mullen
Mr Mullen joined Telstra as a non-executive Director in July 2008. He is the Chairman of the Remuneration Committee and a member of the Nomination Committee.

Nora L Scheinkestel LLB (Hons), PhD, FAICD
Dr Scheinkestel joined Telstra as a non-executive Director on 12 August 2010.

John V Stanhope B Com (Economics and Accounting), FCPA, FCA, FAICD, FAIM
Mr Stanhope was appointed as an executive Director on 8 May 2009. He was appointed to the role of Chief Financial Officer (CFO) and Group Managing Director, Finance & Administration in October 2003.

John M Stewart BA, FCIB, ACII
Mr Stewart joined Telstra as a non-executive Director in April 2008. He is a member of the Audit Committee.

John W Stocker AO, MB, BSc, BMedSc, PhD, FRACP, FTSE
Dr Stocker joined Telstra as a non-executive Director in October 1996. He is Chairman of the Audit Committee and a member of the Technology and NBN Committees.

Steven M Vamos BEng (Hons)
Mr Vamos joined the Telstra Board as a non-executive Director on 15 September 2009. He is also a member of the Nomination, Remuneration and NBN Committees. Mr Vamos ceased to be a member of the Audit Committee on 1 September 2010.

John D Zeglis BSc Finance, JD Law
Mr Zeglis joined Telstra as a non-executive Director in May 2006. He is a Chairman of the Technology Committee.

Consumer

Telstra Consumer is a customer servicing, marketing and sales organisation. Becoming a more customer-centric company and improving customer satisfaction is fundamental to Telstra's strategy.

To do this, we have already begun taking concrete steps to improve key elements of our customers' experience. However, there still is a long way to go.

Over the past year, Telstra has:

- Put millions of dollars more into training customer-facing staff;
- Introduced a dedicated team to manage all service changes from start to finish when our customers move house; and
- Launched new customer service initiatives such as weekend tech appointments, free calls to our main service and support numbers, and the ability to contact us 24/7 for sales and support.

These are just some of the initiatives in a long-term, cross-company program to improve our service, value and offerings to all customers.

Telstra Consumer also continues to bring a range of innovative new products to the market such as the Telstra T-Hub® and T-Box®.

The T-Hub is a new generation of home phone that works like a mobile phone by combining the features of telephony, information and entertainment. T-Hub will become the new family organiser with a calendar, notes, calculator and alarm clock, all of which can sit on the kitchen counter or be carried to another room.

Telstra's T-Box integrates internet entertainment and free to air TV and information, via one exciting device, so customers can watch what they want, when they want on their TV. The T-Box gives viewers high-definition free-to-air TV that can be paused, rewound and recorded, seven BigPond® TV channels, a library of on-demand movies and TV shows, plus entertainment direct from YouTube.

Business

Telstra Business is a business partner and one-stop shop providing communication solutions to Small and Medium Enterprises (SMEs), allowing them to maximise efficiency and focus on their core business.

No matter how small the business, Telstra Business is working to provide a 'Business Class' level of superior service that is unmatched in Australia. Special contact numbers give fast 24/7 access to consultants who are trained to know and understand the unique needs of SMEs. Instead of waiting for businesses to call us with problems, our aim is to call them more often to make sure we're meeting their needs. We've also opened more than 50 Telstra Business Centres around Australia to give SMEs easier access to experts face-to-face. Telstra Business customers now also have easy affordable access to software including the Microsoft™ business range, via our cloud computing platform, T-Suite®. With more innovations on the way, it means SMEs now have the level of service and the computing tools to match big business.

One such customer is Tony Ferguson Weightloss. Growing from two stores to nearly 1900 outlets across five countries in five years, Tony Ferguson Weightloss was using a corporate email system that was suffering serious outages and did not meet the diverse needs of its staff. Decision-makers agreed that they needed to change the way they communicated, without disruption or compromising rapid business growth. They chose Telstra's software-as-a-service offering, T-Suite, to deliver cloud computing solutions from Microsoft Online Services.

"Frankly I was initially sceptical. But as soon as I saw how T-Suite worked and what it could deliver for us, I became very interested," Tony Ferguson Head of Technology Julian Lamb said.

"We'd been considering options to replace our Exchange email service for two years – and it was a scary project. Our company relies heavily on email but we don't have a culture of storing data, so I expected significant disruptions with any other solution."

Tony Ferguson initially opted for a managed Microsoft Exchange Online service to handle email. They found the improvement in service so marked – and migration process so smooth – that they upgraded to 185 full licences for the Microsoft Business Productivity Online Suite, and 25 deskless worker licences. As the chief information officer of a rapidly growing company, Julian believes he will never buy another server again.

Enterprise & Government

Telstra Enterprise & Government (TE&G) is the leading provider of network based solutions and services to enterprise and government organisations in Australia and New Zealand.

Telstra provides services to more than 200 of the world's top 500 companies which rely on TE&G to enable greater productivity, efficiency and growth.

TE&G is increasingly being recognised in the market for its award-winning customer service and for creating superior value by enabling customers to improve their productivity, innovate and grow in a more sustainable way.

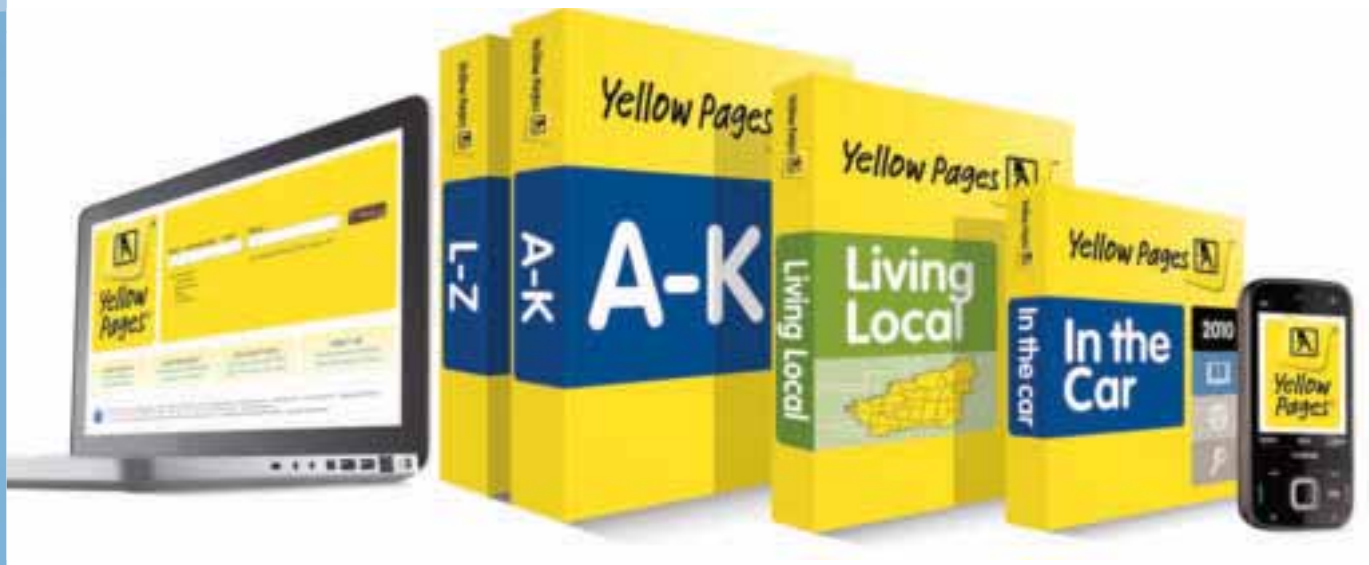
The past year has seen TE&G announce some of the most ground-breaking deals in the ICT sector, such as building one of the largest private communications networks in the world for NSW Department of Education and Training. The network will connect 2250 schools, 100,000 staff and more than 1.2 million students across NSW for its Connected Classrooms program.

Additionally, Telstra has entered into a major strategic partnership with Catholic Network Australia to provide high-speed broadband to more than 1550 Catholic schools across the country enabling the 'Classroom of the Future' a set of new, pioneering learning practises.

Further highlights include Coca-Cola Amatil (CCA) awarding Telstra a 10-year, all of business contract operating over the Telstra Next IP® network and covering mobile email, wireless broadband and voice services. The collaboration is designed to help CCA increase revenues, reduce costs and improve workforce productivity.

Visy Industries also signed a $50 million, 5-year contract to provide a whole of business network and an enterprise cloud computing platform to more cost effectively support Visy's critical business applications across its 140 packaging, paper and recycling sites in Australia, New Zealand, Asia and the US.

Telstra has successfully completed a transformation program with Tabcorp, migrating from its legacy network to next generation, managed services over the Telstra Next IP network, covering more than 4,200 venue sites and 14 office and data centre locations.



Sensis

Sensis is Telstra's advertising subsidiary and Australia's leading local search and directories business.

Responsible for the Yellow Pages® and White Pages® directories, we deliver value to the buyers, sellers and communities we serve by providing easy access to quality information about Australian businesses.

We are maintaining this focus by progressively embracing digital media. Over the last year, we have delivered substantial upgrades to our major directories sites, including improved search capabilities, deeper content and the capabilities to share information across major social networks. We also launched White Pages and Yellow Pages iPhone# Apps, a new White Pages Mobile site and sites for the iPad# and T-Hub. These innovations have had a profound effect on mobile usage, with visits to our mobile sites growing by 80% to 3 million a month.

To assist advertisers, we created a range of new bundled products that make advertising across our network easier than ever. Today, advertising in Yellow Pages means advertisers are not only found in print and online directories, but they can also be searched for in Yellow Pages Online, Yellow Pages on mobile, iPad and T-Hub, the Yellow Pages or iPhone app, Whereis.com, Whereis® Mobile, the 1234 and Call Connect voice services and third party sites like Google* Maps and Bing~ Maps.

We continue to work hard to demonstrate our value to advertisers with detailed usage data, product information and testimonials from both advertisers and users. This information is presented both directly to customers and via our Yellowadvertising.com.au web site.

Another innovative way we recently demonstrated our value is through the Hidden Pizza campaign. This 'reality advertising' campaign involved offering free pizzas at a restaurant whose contact details were only advertised in the Yellow Pages. The end result was a staggering 6,000 Yellow Pages users visiting the restaurant in just two weeks.

During the year, we were also proud to be acknowledged for our sustainability efforts – including the launch of a new sustainability guide for SMEs and achieving carbon neutral certification for Yellow Pages and White Pages print and online. These acknowledgements included the GreenSkills Best Employer Award, a Gold Star in the international Corporate Responsibility Index and the 2010 Australian Business Award for Environmental Sustainability in our industry.

Sensis produces an annual Sustainability Report which can be viewed at: www.about.sensis.com.au/sustainability/sustainability-report/

Telstra Wholesale's focus on customers has improved their experience, with significantly fewer complaints received in the past six months. Telstra Wholesale has reduced the time taken to acknowledge complaints from three days to one and has reduced turnaround times for complex billing customer enquiries by 33%.

Wholesale

Telstra Wholesale provides voice, broadband, mobile, data & facilities access services to over 300 customers in Australia and globally.

Telstra Wholesale also provides services that are essential for the efficient operation of the industry including customer churn and transfer processes that affect hundreds of thousands of customer transfers every year. The provision of these services underpins the competitive telecommunications landscape we have in Australia.

Innovation

Telstra Wholesale embarked on a Fibre To The Premises technology trial in Point Cook in Melbourne's western suburbs, delivering voice and broadband products with speeds up to 100Mbps to wholesale customers servicing residents in Point Cook. To date, eight Wholesale customers have taken the opportunity to partner with Telstra to learn from this exciting technology trial.

Telstra Wholesale is also developing smarter, simpler solutions to enable its wholesale customers to serve their business customers. The 'Business Data Access Solution' launched earlier this year offers simple, scalable national access and aggregation connectivity with a choice of bandwidths. The solution is supported by a single contract and simple pricing, quoting, contracting, ordering and billing processes.

The diversity of programs that Telstra Country Wide supports in regional Australia extends from the arts and environment, emergency services and disaster relief through to business development, sport and seniors education.

Telstra Country Wide

Telstra Country Wide® is the local face of Telstra in communities across Australia.

Established in 2000, Telstra Country Wide actively supports local community groups that are at the heart of country towns and regions. Our support reflects the broad interests of our communities and highlights what matters most to people living in these communities.

Some of Telstra's significant contributions to local communities over the past decade include nurturing up-and-coming musical talent through the long term support of the Tamworth Country Music Festival and the Inverell Sapphire City Festival since 2003, and bridging the metro-country divide through a three-year partnership with One Laptop Per Child Australia which aims to deploy educational laptops to children living in remote communities.

Since its inception in 2003, including this year, the Telstra Assistance Fund has provided more than $8.5 million worth of equipment grants to more than 6,500 community and sporting clubs across Australia. These clubs include local football, surf life saving and swimming clubs.

For more information on Telstra's community programs and initiatives go to www.ideasforgood.com.au/category/community

CORPORATE CITIZENSHIP

As a good corporate citizen, Telstra's responsibility is to manage our business ethically to produce an overall positive impact on our customers, employees and shareholders, as well as the wider community and the natural environment.

Your Company's primary corporate responsibilities are to:

- Increase shareholder value and protect shareholder interests;
- Serve the needs of our customers;
- Make Telstra a great place to work;
- Provide good stewardship of the environment;
- Contribute resources - people, money, technology, products and services - to support the communities in which we operate; and
- Advance the national interest by strengthening the capability of the nation's telecommunications infrastructure, and thereby providing a strong foundation for economic growth, productivity improvement, sustainable prosperity, and global competitive advantage.

Bridging the digital divide

Telstra's commitment to corporate citizenship is evidenced by its support of children in remote communities through One Laptop per Child Australia. OLPC Australia is providing remote primary school students with an XO laptop - a purpose-built, low-cost, low-power, rugged, connected learning device - which gives them access to educational programs and connects them, via the internet, to the rest of the world. The program was launched in May 2009 and has since deployed over 1,500 XOs to children across the country. By 2014 the charity will provide each of the 400,000 geographically isolated children with their own machine, a massive undertaking which OLPC Australia projects will cost $200 million.

Telstra, together with News Ltd and the Commonwealth Bank, will contribute financial and in-kind support to OLPC Australia in a three year partnership, which will enable remote communities to use information and communications technology and overcome the barrier of distance.

Telstra produces a comprehensive corporate citizenship report each year that is available on our website: www.telstra.com.au/cr

Contents

1. Full year results and operations review June 2010 3

2. Corporate Governance and Board Practices 32

3. Shareholder Information. 46

4. Directors' Report 48

5. Remuneration Report 61

6. Financial Report. 77

® Registered trade mark of Telstra Corporation Limited
™ Trade mark of Telstra Corporation Limited
† Registered trade mark of Twentieth Century Fox Film Corporation
‡ Registered trade mark of Research in Motion Ltd
Φ Registered trade mark of HTC Corporation
* Trade mark of Google Inc, a Delaware Corporation
~ Trade mark of Microsoft Corporation, a Washington Corporation
# Trade mark of Apple Inc.
! Trade mark of AUSTAR Entertainment Pty Ltd

All amounts are expressed in Australian dollars ($A) unless otherwise stated.

Full year results and operations review - June 2010

Table of contents

for the year ended 30 June 2010

Page number

Summary financial information
Results of operations . . . 4
Statement of financial position . . . 5
Statement of cashflows . . . 6

Segment information . . . 7
Statistical data summary . . . 10

Revenue and product profitability . . . 11
Fixed products: . . . 12
- PSTN . . . 12
- Fixed internet . . . 13
- ISDN and other fixed revenue . . . 14
Mobiles . . . 15
IP and data access . . . 17
Business services and applications . . . 18
Advertising and directories . . . 18
Offshore controlled entities . . . 18
Pay TV bundling . . . 19
Other revenue . . . 19
Other income . . . 19

Expenses
Labour . . . 20
Goods and services purchased . . . 21
Other expenses . . . 22
Share of net profit from jointly controlled and associated entities . . . 23
Depreciation and amortisation . . . 23
Net finance costs . . . 23
Income tax expense and franking account . . . 24

Major subsidiaries
Sensis financial summary . . . 25
CSL New World financial summary . . . 26
TelstraClear financial summary . . . 27

Statement of financial position . . . 28
Capital expenditure . . . 29
Cashflow summary . . . 30

Full year results and operations review - June 2010

Summary financial information

Results of operations

	Year ended 30 June				Half-year ended 30 June	
	2010 $m	2009 $m	Change $m	**Change %**	2010 $m	YoY change %
Sales revenue	**24,813**	25,371	(558)	**(2.2%)**	12,490	(1.9%)
Other revenue (i)	**104**	136	(32)	**(23.5%)**	85	21.4%
Total revenue	**24,917**	25,507	(590)	**(2.3%)**	12,575	(1.7%)
Other income (ii)	**112**	107	5	**4.7%**	65	20.4%
Total income (excl. finance income)	**25,029**	25,614	(585)	**(2.3%)**	12,640	(1.6%)
Labour	**3,707**	4,131	(424)	**(10.3%)**	1,740	(12.1%)
Goods and services purchased	**5,360**	5,313	47	**0.9%**	2,745	2.4%
Other expenses	**5,117**	5,225	(108)	**(2.1%)**	2,627	1.8%
Operating expenses	**14,184**	14,669	(485)	**(3.3%)**	7,112	(1.8%)
Share of net profit from jointly controlled and associated entities	**(2)**	(3)	1	**33.3%**	(2)	50.0%
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**10,847**	10,948	(101)	**(0.9%)**	5,530	(1.5%)
Depreciation and amortisation	**4,346**	4,390	(44)	**(1.0%)**	2,161	1.2%
Earnings before interest and income tax expense (EBIT)	**6,501**	6,558	(57)	**(0.9%)**	3,369	(3.2%)
Net finance costs	**963**	900	63	**7.0%**	443	(10.9%)
Profit before income tax expense	**5,538**	5,658	(120)	**(2.1%)**	2,926	(1.9%)
Income tax expense	**1,598**	1,582	16	**1.0%**	872	5.4%
Profit for the period	**3,940**	4,076	(136)	**(3.3%)**	2,054	(4.7%)
Attributable to:						
Equity holders of the Telstra Entity	**3,883**	4,073	(190)	**(4.7%)**	2,030	(5.9%)
Non-controlling interests	**57**	3	54	**n/m**	24	n/m
	3,940	4,076	(136)	**(3.3%)**	2,054	(4.7%)
Effective tax rate	**28.9%**	28.0%		**0.9**	29.8%	2.1
EBITDA margin on sales revenue	**43.7%**	43.2%		**0.5**	44.3%	0.2
EBIT margin on sales revenue	**26.2%**	25.8%		**0.4**	27.0%	(0.4)
	cents	cents	Change cents	**Change %**		
Basic earnings per share (iii)	**31.4**	32.9	(1.5)	**(4.7%)**		
Diluted earnings per share (iii)	**31.3**	32.9	(1.5)	**(4.7%)**		
Dividends:						
Interim dividend	**14.0**	14.0				
Final dividend	**14.0**	14.0				
Total	**28.0**	28.0				

(i) Other revenue primarily consists of distributions from our FOXTEL partnership and rental income.
(ii) Other income includes gains and losses on asset and investment sales, USO levy receipts, subsidies and other miscellaneous items.
(iii) Basic and diluted earnings per share are impacted by the effect of shares held in trust for employee share plans and instruments held under executive remuneration plans.
n/m = not meaningful

Full year results and operations review - June 2010

Statement of financial position

	As at			
	30 Jun 10 $m	30 Jun 09 $m	Change $m	**Change %**
Current assets				
Cash and cash equivalents	**1,936**	1,381	555	**40.2%**
Trade and other receivables	**3,981**	4,039	(58)	**(1.4%)**
Inventories	**295**	239	56	**23.4%**
Derivative financial assets	**173**	128	45	**35.2%**
Current tax receivables	**3**	101	(98)	**(97.0%)**
Prepayments	**218**	304	(86)	**(28.3%)**
Assets classified as held for sale	**579**	-	579	**n/m**
Total current assets	**7,185**	6,192	993	**16.0%**
Non current assets				
Trade and other receivables	**217**	163	54	**33.1%**
Inventories	**17**	18	(1)	**(5.6%)**
Investments - accounted for using the equity method	**17**	16	1	**6.3%**
Investments - other	**1**	-	1	**n/m**
Property, plant and equipment	**22,894**	23,895	(1,001)	**(4.2%)**
Intangible assets	**8,028**	8,416	(388)	**(4.6%)**
Derivative financial assets	**592**	1,073	(481)	**(44.8%)**
Non current tax receivables	**321**	172	149	**86.6%**
Deferred tax assets	**3**	9	(6)	**(66.7%)**
Defined benefit assets	**7**	8	(1)	**(12.5%)**
Total non current assets	**32,097**	33,770	(1,673)	**(5.0%)**
Total assets	**39,282**	39,962	(680)	**(1.7%)**
Current liabilities				
Trade and other payables	**3,843**	3,734	109	**2.9%**
Provisions	**389**	495	(106)	**(21.4%)**
Borrowings	**2,540**	1,979	561	**28.3%**
Derivative financial liabilities	**384**	111	273	**245.9%**
Current tax liabilities	**335**	262	73	**27.9%**
Revenue received in advance	**1,102**	1,171	(69)	**(5.9%)**
Liabilities classified as held for sale	**89**	-	89	**n/m**
Total current liabilities	**8,682**	7,752	930	**12.0%**
Non current liabilities				
Other payables	**248**	245	3	**1.2%**
Provisions	**727**	761	(34)	**(4.5%)**
Borrowings	**12,370**	15,344	(2,974)	**(19.4%)**
Derivative financial liabilities	**1,518**	819	699	**85.3%**
Deferred tax liabilities	**1,927**	1,593	334	**21.0%**
Defined benefit liability	**464**	414	50	**12.1%**
Revenue received in advance	**338**	353	(15)	**(4.2%)**
Total non current liabilities	**17,592**	19,529	(1,937)	**(9.9%)**
Total liabilities	**26,274**	27,281	(1,007)	**(3.7%)**
Net assets	**13,008**	12,681	327	**2.6%**
Equity				
Equity available to Telstra Entity shareholders	**12,696**	12,418	278	**2.2%**
Non-controlling interests	**312**	263	49	**18.6%**
Total equity	**13,008**	12,681	327	**2.6%**
Gross debt	**16,031**	17,036	(1,005)	**(5.9%)**
Net debt	**13,926**	15,655	(1,729)	**(11.0%)**
EBITDA interest cover (times)	**10.8**	9.6	1.2	**12.5%**
Net debt to EBITDA	**1.3**	1.4	(0.1)	**(7.1%)**
Return on average assets	**17.3%**	17.4%		**(0.1)**
Return on average equity	**30.9%**	33.3%		**(2.4)**
Return on average investment	**23.5%**	23.4%		**0.1**
Net debt to capitalisation	**51.7%**	55.2%		**(3.5)**

Full year results and operations review - June 2010

Statement of cashflows

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Cashflows from operating activities				
Receipts from customers (inclusive of goods and services tax (GST))	**27,128**	27,719	(591)	**(2.1%)**
Payments to suppliers and to employees (inclusive of GST)	**(16,218)**	(17,074)	856	**(5.0%)**
Net cash generated by operations	**10,910**	10,645	265	**2.5%**
Income taxes paid	**(1,219)**	(1,647)	428	**(26.0%)**
Net cash provided by operating activities	**9,691**	8,998	693	**7.7%**
Cashflows from investing activities				
Payments for:				
- property, plant and equipment	**(2,718)**	(3,263)	545	**(16.7%)**
- intangible assets	**(877)**	(1,531)	654	**(42.7%)**
Capital expenditure (before investments)	**(3,595)**	(4,794)	1,199	**(25.0%)**
- shares in controlled entities (net of cash acquired)	**(95)**	(240)	145	**(60.4%)**
- payments for other investments	**-**	(1)	1	**(100.0%)**
Total capital expenditure	**(3,690)**	(5,035)	1,345	**(26.7%)**
Proceeds from:				
- sale of property, plant and equipment	**24**	22	2	**9.1%**
- sale of intangible assets	**2**	2	-	**-**
- sale of shares in controlled entities (net of cash disposed)	**11**	197	(186)	**(94.4%)**
- sale of business	**1**	-	1	**n/m**
Proceeds from finance lease principal amounts	**66**	55	11	**20.0%**
Loans to jointly controlled and associated entities	**-**	(4)	4	**n/m**
Interest received	**66**	65	1	**1.5%**
Settlement of hedges in net investments	**(6)**	(35)	29	**(82.9%)**
Distributions received from FOXTEL Partnership	**60**	100	(40)	**(40.0%)**
Net cash used in investing activities	**(3,466)**	(4,633)	1,167	**(25.2%)**
Operating cashflows less investing cashflows	**6,225**	4,365	1,860	**42.6%**
Cashflows from financing activities				
Proceeds from borrowings	**1,777**	3,118	(1,341)	**(43.0%)**
Repayment of borrowings	**(2,676)**	(2,288)	(388)	**17.0%**
Repayment of finance lease principal amounts	**(55)**	(36)	(19)	**52.8%**
Staff repayments of share loans	**9**	11	(2)	**(18.2%)**
Finance costs paid	**(1,042)**	(1,221)	179	**(14.7%)**
Dividends paid to equity holders of Telstra Entity	**(3,474)**	(3,474)	-	**-**
Dividends paid to non-controlling interests	**(20)**	(43)	23	**(53.5%)**
Net cash used in financing activities	**(5,481)**	(3,933)	(1,548)	**39.4%**
Net increase/(decrease) in cash and cash equivalents	**744**	432	312	**72.2%**
Cash and cash equivalents at the beginning of the period	**1,381**	899	482	**53.6%**
Effects of exchange rate changes on cash and cash equivalents	**(20)**	50	(70)	**(140.0%)**
Cash and cash equivalents at the end of the period (i)	**2,105**	1,381	724	**52.4%**

(i) Cash and cash equivalents includes $169 million of cash and cash equivalents in assets classified as held for sale.

Full year results and operations review - June 2010

Segment information

	Total external income Year ended 30 June			EBIT contribution Year ended 30 June		
	2010 $m	2009 $m	**Change %**	**2010 $m**	2009 $m	**Change %**
Telstra Consumer	**10,275**	10,325	**(0.5%)**	**6,142**	6,397	**(4.0%)**
Telstra Business	**3,836**	3,799	**1.0%**	**2,751**	2,767	**(0.6%)**
Telstra Enterprise and Government	**4,237**	4,169	**1.6%**	**3,281**	3,261	**0.6%**
Telstra Wholesale	**2,320**	2,383	**(2.6%)**	**2,139**	2,215	**(3.4%)**
Telstra Operations	**80**	84	**(4.8%)**	**(3,645)**	(3,834)	**4.9%**
Sensis	**2,262**	2,301	**(1.7%)**	**1,113**	1,067	**4.3%**
CSL New World	**774**	989	**(21.7%)**	**121**	(103)	**217.5%**
TelstraClear	**529**	547	**(3.3%)**	**(14)**	(13)	**(7.7%)**
Other	**656**	689	**(4.8%)**	**(5,280)**	(5,307)	**0.5%**
Total Telstra segments (i)	**24,969**	25,286	**(1.3%)**	**6,608**	6,450	**2.4%**
Other items excluded from segment results (ii)	**60**	328	**(81.7%)**	**(107)**	108	**(199.1%)**
Total Telstra Group (reported)	**25,029**	25,614	**(2.3%)**	**6,501**	6,558	**(0.9%)**

(i) Internally, we monitor our segment performance excluding the impact of irregular revenue and expense items such as sales of major businesses and investments, sales of land and buildings, impairment write-offs and FOXTEL distributions.
(ii) Other items excluded from segment results for the year ended 30 June 2009 include the KAZ business which was sold in April 2009.

Revenue by business segment

	Year ended 30 June				Half-year ended 30 Jun 2010	
	2010 $m	2009 $m	Change $m	**Change %**	$m	YoY change %
Telstra Consumer						
PSTN products	**3,498**	3,777	(279)	**(7.4%)**	1,683	**(9.7%)**
Fixed internet	**1,261**	1,274	(13)	**(1.0%)**	622	**(2.6%)**
Mobile services revenue	**3,927**	3,728	199	**5.3%**	1,964	**8.9%**
Telstra Business						
PSTN products	**1,257**	1,348	(91)	**(6.8%)**	609	**(7.5%)**
Fixed internet	**299**	283	16	**5.7%**	150	**4.2%**
Mobile services revenue	**1,501**	1,404	97	**6.9%**	771	**11.4%**
Telstra Enterprise and Government						
Mobile services revenue	**855**	789	66	**8.4%**	435	**11.7%**
IP and data access	**1,176**	1,156	20	**1.7%**	585	**1.1%**
Business services and applications	**882**	843	39	**4.6%**	479	**6.4%**

We report our segment information on the same basis as our internal management reporting structure at reporting date, which drives how our company is organised and managed.

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on their "underlying EBIT contribution" to the Telstra Group. EBIT contribution excludes the effects of all inter-segment balances and transactions. In addition, certain items are recorded within our corporate areas, rather than being allocated to each segment. Of particular note is that Telstra Operations includes the costs associated with the operation of the majority of our networks as well as IT costs associated with the supply and delivery of solutions to support our range of products and services. Depreciation and amortisation costs associated with the fixed assets of the parent entity are recorded centrally in the corporate centre (included in "Other").

Segment comparatives are restated to reflect any organisational changes which have occurred since the prior reporting period.

Further details about the performance of our business segments follows:

Telstra Consumer

Our consumer segment faced a challenging year due to intense competition with revenue declining marginally by 0.5% and EBIT contribution declining by 4.0%. However, during the second half of the year significant initiatives were implemented to change the momentum of the business. These included innovative new products and new bundles of products and services across the fixed and mobiles categories.

During the fiscal year, PSTN revenues fell by 7.4% to $3,498 million. The decline accelerated during the second half with PSTN revenue down nearly 10% as the shift continued to ULL and wireless only households. In addition, there has been an acceleration in the decline in usage over the period. PSTN SIOs also fell by 257

Full year results and operations review - June 2010

thousand or 4.7% during the year. Some of these factors also impacted fixed internet with revenues declining by 1.0% to $1,261 million.

Mobile services revenue growth was steady at 5.3% as consumer take up of wireless broadband continued to surge with revenue jumping 43.9% despite the intensely competitive market. Continued growth in wireless broadband highlights the popularity of using a wireless broadband card on our Next G™ network. Customers benefit from the superior speeds and breadth of coverage offered.

Pay TV bundling revenue grew by 9.8% to just under half a billion dollars. This is important as customers reduce their propensity to churn when adding pay TV to a bundle of other services.

EBIT contribution fell by 4.0% due to increases in handset subsidies, additional costs incurred in raising customer service levels and in bad debts. These outweigh savings from staff reductions from the marketing simplification in the prior year.

Telstra Business

Revenue in the business segment grew by 1.0% for the year with growth in the second half jumping to 2.4% from a decline of 0.4% in the first half. EBIT contribution marginally declined by 0.6%.

The decline in PSTN continued to accelerate with PSTN revenue down 6.8% to $1,257 million as customers substitute fixed access and calling to other products. The decline in PSTN was more than offset by revenue growth in other products, with mobiles services up by 6.9%, fixed internet up by 5.7% and IP and data access up by 5.5%.

The new "Mobile Plus" pricing plans incorporating voice and data were launched at the start of the second half, achieving strong take up with increased smartphone penetration and higher data ARPUs. Wireless broadband revenue grew by 23.3% and SIOs increased by 52.0% for the year, with momentum increasing after new pricing plans were launched at the start of the second half. However, wireless broadband ARPU declined by 18.6% as the mix of plans and customers changed. Mobile data revenue now accounts for 32.4% of mobile services revenue and grew by 25.7%.

In the fixed broadband space, the decline in ADSL connections continued with a 6.9% reduction in ADSL services as the migration to the business grade product continued. Whilst penetration of business grade broadband is still relatively low, revenue increased by 28.6%.

Expenses grew by 5.1% as goods and services purchased increased by 7.9% and other expenses rose by 5.1%. These increases were partly offset by a 5.4% decline in labour and labour substitution expenses from productivity improvements. The increase in goods and services purchased was partly driven by a 16.9% increase in subsidy expenses as we competed more aggressively in the market, together with an increase in the penetration of smartphones and subsidies on wireless broadband. Usage commissions also increased by 21.0% mainly due to higher fixed line commissions to dealers and licensed shops as volumes increased in the second half of the year.

Telstra Enterprise and Government (excluding KAZ)

On an underlying basis, revenue grew by 1.6% and EBIT contribution grew by 0.6%.

The largest revenue generating products in the enterprise and government segment continued to perform strongly with IP and data access revenue up by 1.7% to $1,176 million and total mobiles revenue growing by 10.4% to $934 million.

In the IP and data access category, the migration of customers from legacy products to premium IP solutions utilising the Next IP™ network continued with IP access revenue growing by 23.8% to $733 million.

In mobiles, services revenue rose by 8.4% to $855 million and hardware revenue increased by 38.4%. Mobile data revenue continued to drive growth with data messaging revenue up by 13.8%, non-messaging (handheld) data revenue up by 5.5% and wireless broadband revenue increasing by 22.0%. Mobile data accounted for 45.7% of mobile services revenue for the year.

Business services and applications revenues increased by 4.6% to $882 million for the year.

The decline in PSTN services and usage continued while a significant fall in ISDN ARPU also contributed to a 6.5% decrease in fixed products revenue to $1,231 million.

External expenses in this segment increased by 5.1% to $955 million with a significant increase in cost of goods sold mainly as a direct result of increased business services and applications revenue. Labour and labour substitution costs declined by 1.8% during the year.

Telstra Wholesale

Wholesale revenue declined by 2.6% as the ULL and LSS build out continued detrimentally impacting the wholesale business. The migration from on-net resale services to ULL/LSS was reflected in wholesale PSTN lines declining by 32 thousand and DSL lines declining by 106 thousand during the year. ULL SIOs increased by 133 thousand and LSS SIOs increased by 155 thousand.

As a result of declining services and further reductions in usage, PSTN revenue declined by 11.8% and fixed internet revenue fell by 1.8%. Intercarrier access services revenue (which includes ULL revenue) increased by 12.7%.

External expenses for the wholesale business increased by 7.8% driven by a 20.7% increase in network payments expenses due to a commercial deal with a mobile operator in the prior year which resulted in lower rates and expenses in fiscal 2009. EBIT contribution fell by 3.4%.

Telstra Operations

Telstra Operations is primarily a cost centre supporting the revenue generating activities of our other segments.

Full year results and operations review - June 2010

This year the negative EBIT contribution from this area improved by 4.9% with continued reductions in labour expenses, service contracts and other operating expenses. These savings mainly resulted from the continuous focus on productivity and efficiency initiatives and tight control over discretionary spending.

Sensis, CSL New World and TelstraClear

Refer to more detailed discussion in the major subsidiaries section beginning on page 25.

Other

Our Other segment consists primarily of our corporate centre functions where we recognise depreciation and amortisation on fixed assets and redundancy expenses for the parent entity. Refer to the detailed discussion on these expense categories within this document.

Full year results and operations review - June 2010

Statistical data summary

Billable traffic data (i)

	Year ended 30 June				Half-year ended 30 June			
	2010 m	2009 m	Change m	**Change %**	**2010 m**	2009 m	Change m	**Change %**
Fixed telephony								
Number of local calls	**4,134**	4,844	(710)	**(14.7%)**	**1,958**	2,343	(385)	**(16.4%)**
National long distance minutes	**5,915**	6,555	(640)	**(9.8%)**	**2,862**	3,277	(415)	**(12.7%)**
Fixed to mobile minutes	**3,133**	3,332	(199)	**(6.0%)**	**1,522**	1,657	(135)	**(8.1%)**
International direct minutes	**541**	560	(19)	**(3.4%)**	**261**	282	(21)	**(7.4%)**
Mobiles								
Mobile voice telephone minutes	**11,524**	11,005	519	**4.7%**	**5,801**	5,435	366	**6.7%**
Number of SMS sent	**9,394**	8,943	451	**5.0%**	**4,611**	4,590	21	**0.5%**

Services in operation (i)

	As at			Jun 10 vs Jun 09		Jun 10 vs Dec 09	
	Jun 2010	Dec 2009	Jun 2009	Change	**Change %**	Change	**Change %**
Fixed products							
Basic access lines in service (thousands)							
Residential	**5,203**	5,309	5,462	(259)	**(4.7%)**	(106)	**(2.0%)**
Business	**2,204**	2,236	2,271	(67)	**(3.0%)**	(32)	**(1.4%)**
Total retail customers	**7,407**	7,545	7,733	(326)	**(4.2%)**	(138)	**(1.8%)**
Domestic wholesale	**1,253**	1,263	1,285	(32)	**(2.5%)**	(10)	**(0.8%)**
Total basic access lines in service (thousands)	**8,660**	8,808	9,018	(358)	**(4.0%)**	(148)	**(1.7%)**
Fixed broadband SIOs - retail	**2,255**	2,244	2,274	(19)	**(0.8%)**	11	**0.5%**
Fixed broadband SIOs - wholesale	**1,739**	1,726	1,691	48	**2.8%**	13	**0.8%**
Total fixed broadband SIOs	**3,994**	3,970	3,965	29	**0.7%**	24	**0.6%**
Narrowband SIOs	**264**	308	363	(99)	**(27.3%)**	(44)	**(14.3%)**
Total fixed internet SIOs (thousands)	**4,258**	4,278	4,328	(70)	**(1.6%)**	(20)	**(0.5%)**
ISDN access (basic line equivalents) (thousands)	**1,308**	1,305	1,291	17	**1.3%**	3	**0.2%**
Unbundled local loop SIOs (thousands)	**831**	770	698	133	**19.1%**	61	**7.9%**
Spectrum sharing services (thousands) (ii)	**735**	672	580	155	**26.7%**	63	**9.4%**
Mobiles (thousands)							
Total retail mobile SIOs	**10,562**	10,387	10,191	371	**3.6%**	175	**1.7%**
Total wireless broadband (data card) SIOs (iii)	**1,654**	1,325	1,046	608	**58.1%**	329	**24.8%**
Total wholesale mobile SIOs	**81**	76	72	9	**12.5%**	5	**6.6%**
Prepaid handheld unique users (iv)	**1,889**	1,921	1,951	(62)	**(3.2%)**	(32)	**(1.7%)**
Total pay TV bundling SIOs (thousands)	**504**	479	450	54	**12.0%**	25	**5.2%**
Employee data							
Domestic full time staff (v)	**31,157**	30,924	31,662	(505)	**(1.6%)**	233	**0.8%**
Full time staff and equivalents (v)	**41,690**	39,763	39,464	2,226	**5.6%**	1,927	**4.8%**
Total workforce (v)	**45,220**	43,332	43,181	2,039	**4.7%**	1,888	**4.4%**

Note: statistical data represents management's best estimates.

(i) Refer to each product section for more detailed data.
(ii) Included in wholesale broadband SIOs.
(iii) Included in total retail mobile SIOs.
(iv) Prepaid unique users defined as the three month rolling average of monthly active prepaid users.
(v) Refer to the labour section on page 20 for definitions.

Full year results and operations review - June 2010

Revenue and product profitability

Revenue

	Year ended 30 June				Half-year ended 30 June	
	2010 $m	2009 $m	Change $m	**Change %**	2010 $m	YoY change %
Fixed products						
PSTN products	**5,833**	6,337	(504)	**(8.0%)**	2,836	(9.0%)
Fixed internet	**2,144**	2,160	(16)	**(0.7%)**	1,061	(1.4%)
ISDN products	**905**	942	(37)	**(3.9%)**	442	(3.7%)
Other fixed revenue	**1,202**	1,221	(19)	**(1.6%)**	600	(0.8%)
Total fixed products	**10,084**	10,660	(576)	**(5.4%)**	4,939	(6.1%)
Mobiles						
Mobile services	**6,461**	6,101	360	**5.9%**	3,250	7.1%
Mobile hardware	**856**	777	79	**10.2%**	443	16.3%
Total mobiles	**7,317**	6,878	439	**6.4%**	3,693	8.1%
IP and data access						
Specialised data	**482**	628	(146)	**(23.2%)**	213	(29.0%)
Global products	**117**	130	(13)	**(10.0%)**	56	(16.4%)
IP access	**835**	676	159	**23.5%**	442	25.6%
Wholesale internet and data	**338**	308	30	**9.7%**	170	11.8%
Total IP and data access	**1,772**	1,742	30	**1.7%**	881	1.1%
Business services and applications	**936**	1,115	(179)	**(16.1%)**	507	(11.1%)
Offshore content and online content	**144**	70	74	**105.7%**	55	(8.3%)
Advertising and directories	**2,165**	2,259	(94)	**(4.2%)**	1,190	(3.3%)
CSL New World	**770**	989	(219)	**(22.1%)**	396	(19.8%)
TelstraClear	**529**	547	(18)	**(3.3%)**	260	(4.4%)
Other offshore services revenue	**293**	390	(97)	**(24.9%)**	141	(27.7%)
Pay TV bundling	**511**	467	44	**9.4%**	264	12.8%
Other sales revenue (i)	**292**	254	38	**15.0%**	164	30.2%
Sales revenue	**24,813**	25,371	(558)	**(2.2%)**	12,490	(1.9%)
Other revenue (ii)	**104**	136	(32)	**(23.5%)**	85	21.4%
Total revenue	**24,917**	25,507	(590)	**(2.3%)**	12,575	(1.7%)
Other income (iii)	**112**	107	5	**4.7%**	65	20.4%
Total income	**25,029**	25,614	(585)	**(2.3%)**	12,640	(1.6%)

(i) Other sales revenue includes $84 million relating to HFC cable usage (June 2009: $76 million).
(ii) Other revenue primarily consists of distributions from our FOXTEL Partnership and rental income.
(iii) Other income includes gains and losses on asset and investment sales, USO levy receipts, subsidies and other miscellaneous items.

Product profitability

It is increasingly important for investors to understand the changing profitability of the business as the revenue mix shift changes. Therefore, we have started to report estimated EBITDA margins for our major products.

Product profitability - EBITDA margins

	Year ended 30 June		
	2010 $m	2009 $m	2008 $m
PSTN	**59%**	58%	61%
Fixed broadband	**41%**	36%	27%
Mobile	**35%**	34%	30%
IP and data access	**62%**	57%	55%
Sensis	**54%**	52%	51%
Telstra Group	**43.7%**	43.2%	42.2%

Note: product margins represent management's best estimates.

In a number of major products, profitability has remained steady or improved significantly over the last two years. It is encouraging that fixed broadband profitability has increased as market growth has slowed, while mobiles and IP and data profitability remains positive in spite of the growth in both those markets.

Full year results and operations review - June 2010

Fixed products

PSTN

- PSTN revenue declined by 8.0% to $5,833 million driven by continued lower usage and an increase in the decline of retail SIOs
- Retail revenue declined by 7.4% compared with a slowing wholesale decline of 11.8%
- PSTN average revenue per user (ARPU) declined by 4.3% to $54.99 per month

PSTN

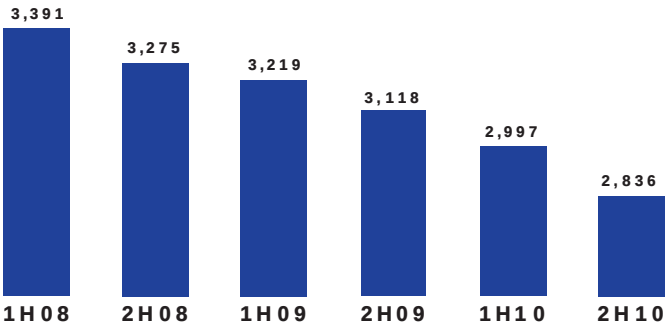
	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
PSTN revenue	**5,833**	6,337	(504)	**(8.0%)**
PSTN retail versus wholesale revenue				
Retail	**5,167**	5,582	(415)	**(7.4%)**
Wholesale	**666**	755	(89)	**(11.8%)**
Basic access lines in service (thousands)				
Residential	**5,203**	5,462	(259)	**(4.7%)**
Business	**2,204**	2,271	(67)	**(3.0%)**
Total retail	**7,407**	7,733	(326)	**(4.2%)**
Domestic wholesale	**1,253**	1,285	(32)	**(2.5%)**
Total basic access lines in service	**8,660**	9,018	(358)	**(4.0%)**
Average revenue per user per month ($'s)	**54.99**	57.47	(2.48)	**(4.3%)**
Number of local calls (millions) (i)	**4,134**	4,844	(710)	**(14.7%)**
National long distance minutes (millions) (i)	**5,915**	6,555	(640)	**(9.8%)**
Fixed to mobile minutes (millions)	**3,133**	3,332	(199)	**(6.0%)**
International direct minutes (millions) (i)	**541**	560	(19)	**(3.4%)**

Note: statistical data represents management's best estimates.

(i) Includes local calls, national long distance and international direct minutes from our public switched telephone network (PSTN) and independently operated payphones. Excludes minutes related to calls from non-PSTN networks, such as mobiles, ISDN and virtual private networks.

Total PSTN revenue declined by 8.0% to $5,833 million. A 9.0% decline in the second half of the fiscal year reflected a continued acceleration of the decline in PSTN revenue over recent periods following the 4.8% decline in the second half of last fiscal year and the 6.9% decline in the first half of this fiscal year. This decline has been driven by lower usage across all calling categories and the continued fall in SIOs from acceleration of retail customer loss as ULL growth continues and customers migrate to mobile and IP products. The fall in usage levels also had a direct impact on PSTN ARPU which declined by 4.3% to $54.99 during the year.

PSTN Revenue ($m)



For the fiscal year, total basic access lines (SIOs) declined by 358 thousand to 8.66 million. Retail SIOs declined by 326 thousand and wholesale SIOs declined by 32 thousand lines. The decline was partly driven by the continued increase in mobile only households and the migration to IP access services in large businesses. Some of the decline consequently represents a change in technology usage rather than a loss of customers. Retail PSTN lines were also negatively impacted by the competitor take-up of ULL and LSS lines where build activity and wholesale SIO loss was significant last year. The rate of decline in retail lines increased slightly in the second half of the year.

Full year results and operations review - June 2010

PSTN usage decline also continued to accelerate. Local call revenue declined by 15.0% while the number of local calls made for the year declined by 710 million or 14.7%, or around five calls less per line per month. There were also double digit declines in revenue for national long distance calls, international direct and fixed interconnection while fixed to mobile PSTN revenue fell by 7.8%.

During the second half of the fiscal year we continued to grow our bundle plans which now serve around 300,000 customers.

PSTN revenue - year-on-year change %

	Half-year ended						
	Jun 2010	Dec 2009	Jun 2009	Dec 2008	Jun 2008	Dec 2007	Jun 2007
Total PSTN	**(9.0%)**	(6.9%)	(4.8%)	(5.1%)	(4.3%)	(2.1%)	(2.9%)
Retail	**(9.0%)**	(5.9%)	(3.2%)	(1.8%)	(0.6%)	0.3%	(1.7%)
Wholesale	**(9.2%)**	(14.2%)	(15.4%)	(23.8%)	(23.3%)	(13.7%)	(8.4%)
Wholesale as a percentage of total PSTN revenue	**11.7%**	11.1%	11.8%	12.1%	13.2%	15.0%	16.5%

PSTN basic access services in operation

	Half-year ended						
	Jun 2010 '000s	Dec 2009 '000s	Jun 2009 '000s	Dec 2008 '000s	Jun 2008 '000s	Dec 2007 '000s	Jun 2007 '000s
Retail	**7,407**	7,545	7,733	7,829	7,865	7,824	7,777
Wholesale	**1,253**	1,263	1,285	1,341	1,496	1,730	1,981

Fixed internet

- Retail fixed broadband revenue grew by 0.9% during the fiscal year with growth limited by the maturing of the fixed broadband market, substitution to wireless products and intense competition
- Fixed retail broadband SIOs increased by 11 thousand in the second half following the release of new products and bundled offers and price changes

Fixed internet

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Fixed broadband - retail	**1,547**	1,533	14	**0.9%**
Fixed broadband - hardware	**26**	35	(9)	**(25.7%)**
Wholesale broadband	**488**	498	(10)	**(2.0%)**
Narrowband	**34**	59	(25)	**(42.4%)**
Internet VAS	**49**	35	14	**40.0%**
Total fixed internet revenue	**2,144**	2,160	(16)	**(0.7%)**
Total fixed broadband SIOs - retail (thousands)	**2,255**	2,274	(19)	**(0.8%)**
Average fixed broadband retail revenue per SIO per month (excl hardware) ($'s)	**56.92**	56.41	0.51	**0.9%**
Broadband SIOs - wholesale (thousands)	**1,739**	1,691	48	**2.8%**
Average broadband wholesale revenue per SIO per month ($'s)	**23.72**	24.44	(0.72)	**(2.9%)**
Spectrum sharing services (thousands) (included in wholesale SIOs)	**735**	580	155	**26.7%**

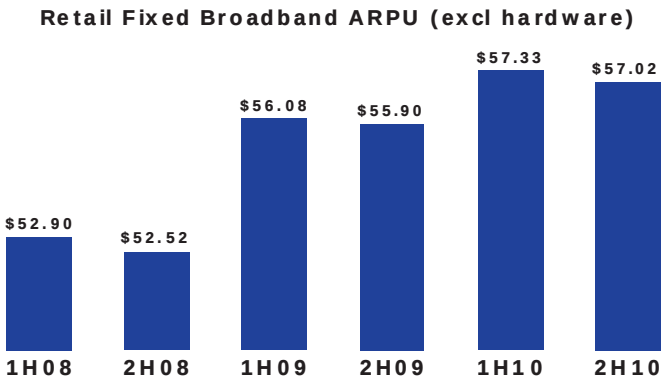
Note: statistical data represents management's best estimates.

Total fixed internet revenue decreased by 0.7% to $2,144 million during the year with narrowband, fixed wholesale broadband and hardware revenue all declining.

Fixed retail broadband revenue grew by 0.9% to $1,547 million while fixed retail broadband SIOs fell by 19 thousand during the financial year. The decline over the year was a consequence of trends including the maturing of the fixed broadband market, continued substitution to wireless broadband and the impact of low price offers in the market based on ULL and LSS services and prices.

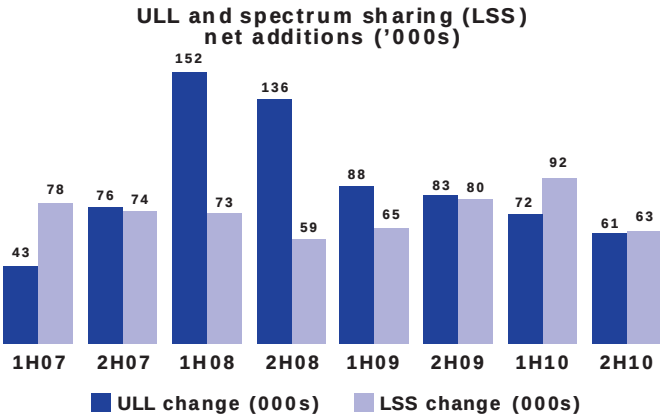
In the second half of the fiscal year a number of new initiatives were launched resulting in a gain during the half of 11 thousand fixed retail broadband SIOs. These initiatives included providing increased data allowances in existing plans, attractive bundled offers, unique content and the launch of Telstra T-Hub®.

Full year results and operations review - June 2010



During the fiscal year, fixed retail broadband ARPU (excluding hardware) increased slightly by 0.9% to $56.92 per month and helped offset the revenue impact of a decline in ADSL lines. ADSL ARPU has increased for the last three fiscal years as customers migrate to premium high speed ADSL2+ plans. The proportion of ADSL2+ revenues to total ADSL revenue in the second half was 16.4%, up from 13.9% in the first half. In terms of SIOs, nearly 600 thousand retail customers were on fixed high-speed plans (20Mbps or greater) at the end of the financial year.

Wholesale broadband revenue fell by 2.0% to $488 million. The decline was caused by a fall in wholesale DSL customers as the migration to ULL and LSS continued. ULL revenue is included within the other fixed revenue category while each LSS line has low ARPU within wholesale broadband.



Internet VAS revenue continued to grow strongly, increasing by 40.0% to $49 million driven by growth in our BigPond® security bundles.

ISDN and other fixed revenue

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
ISDN revenue	**905**	942	(37)	**(3.9%)**
Other fixed revenue	**1,202**	1,221	(19)	**(1.6%)**
ISDN average revenue per user per month ($'s)	**58.05**	60.64	(2.59)	**(4.3%)**
ISDN access lines (basic access line equivalents) (thousands)	**1,308**	1,291	17	**1.3%**
Unbundled local loop SIOs (thousands)	**831**	698	133	**19.1%**

Note: statistical data represents management's best estimates.

ISDN revenue declined by 3.9% to $905 million. This was caused by the migration from ISDN2 services to other services, including IP voice and data alternatives. The number of ISDN SIOs increased marginally due to take up by business and enterprise and government customers of ISDN 10/20/30 primary rate services.

Other fixed revenue fell by 1.6% to $1,202 million with premium calling products revenue down by 5.8%, customer premises equipment revenue down by 5.0% and other fixed telephony revenue down by 12.1%. Partly offsetting these declines was intercarrier access services revenue which increased by 12.9% to $403 million, driven by a rise in ULL SIOs of 133 thousand to 831 thousand. This increase resulted from wholesale customers migrating customers onto their own infrastructure, particularly in metropolitan areas where rental charges remain low.

Full year results and operations review - June 2010

Mobiles

- Mobile services revenue grew by 5.9% during the fiscal year with growth accelerating to 7.1% in the second half in tough market conditions
- Total mobile data revenue up 21.7% or $440 million to $2.47 billion
- Strong wireless broadband revenue growth up 34.1% to $787 million and SIOs up 58.1% to 1.654 million
- Retail postpaid SIOs grew by 278 thousand in the half and 447 thousand in the year to 7.016 million

Mobiles

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Calling and access charges (i)	**3,299**	3,405	(106)	**(3.1%)**
Mobile data				
- Messaging	**1,023**	896	127	**14.2%**
- Non-messaging (handheld)	**660**	547	113	**20.7%**
- Wireless broadband	**787**	587	200	**34.1%**
Total mobile data	**2,470**	2,030	440	**21.7%**
Mobiles interconnection	**533**	491	42	**8.6%**
Mobile services revenue - wholesale resale	**159**	175	(16)	**(9.1%)**
Total mobile services revenue	**6,461**	6,101	360	**5.9%**
Mobile hardware	**856**	777	79	**10.2%**
Total mobile revenue	**7,317**	6,878	439	**6.4%**
Mobile services retail revenue				
Postpaid retail revenue	**5,025**	4,797	228	**4.8%**
Prepaid retail revenue	**744**	638	106	**16.6%**
SIOs (at end of period) (thousands)				
Postpaid retail mobile SIOs	**7,016**	6,569	447	**6.8%**
Prepaid retail mobile SIOs	**3,546**	3,622	(76)	**(2.1%)**
Total retail mobile SIOs	**10,562**	10,191	371	**3.6%**
Wireless broadband (postpaid and prepaid) SIOs (ii)	**1,654**	1,046	608	**58.1%**
Wholesale SIOs	**81**	72	9	**12.5%**
Unique users (thousands)				
Prepaid handheld unique users (3 month average of monthly users)	**1,889**	1,951	(62)	**(3.2%)**
ARPUs ($'s)				
Blended average revenue per user (including interconnection)	**50.61**	50.58	0.03	**0.1%**
Postpaid average revenue per user	**61.65**	63.17	(1.52)	**(2.4%)**
Prepaid average revenue per user	**17.30**	15.47	1.83	**11.8%**
Wireless broadband average revenue per user	**48.56**	62.24	(13.68)	**(22.0%)**
Number of SMS sent (millions)	**9,394**	8,943	451	**5.0%**
Number of MMS sent - postpaid (millions)	**86**	68	18	**26.5%**
Mobile voice telephone minutes (millions)	**11,524**	11,005	519	**4.7%**
Deactivation rate	**25.9%**	23.0%		**2.9**

Note: statistical data represents management's best estimates.

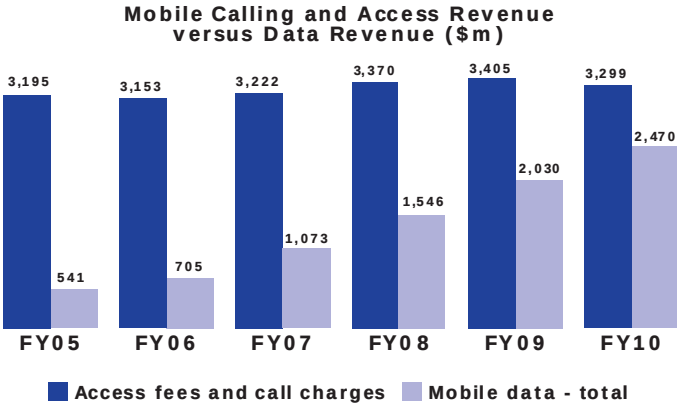
(i) Includes $409 million of international roaming (2009: $390 million) and $277 million of mobile messagebank (2009: $273 million).
(ii) Included in total retail mobile SIOs.

Domestic mobile revenue grew by 6.4% year on year to $7,317 million, with mobile services revenue increasing by 5.9% to $6,461 million and mobile hardware revenue increasing by 10.2%. Mobile services revenue growth accelerated in the second half of the fiscal year after revenue grew by 7.1% compared to the 4.7% growth in the first half. Our investment in continuing to upgrade the Next G™ network has continued to provide us with a key point of differentiation in an intensely competitive market. Mobile calling and access revenues fell by 3.1% due to intense price based competition and a proliferation of capped plans. However, the voice revenue decline was more than offset by momentum in mobile data growth.

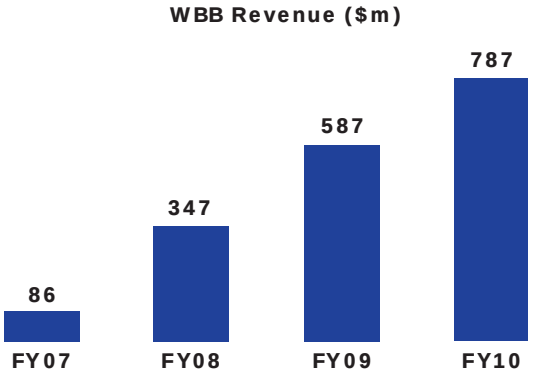
Total mobile data revenue grew by 21.7% to $2,470 million with continued strong growth in handheld messaging and non-messaging and wireless broadband (data cards). Messaging revenues grew by 14.2% to more than $1 billion with relatively steady growth throughout the year including 5.0% total SMS volumes

Full year results and operations review - June 2010

growth. Handheld non-messaging revenues grew by 20.7% to $660 million during the year as the growth in smartphones, increased popularity of mobile social networking and customers using their mobiles as modems continued. In addition, greater take up of Blackberry‡ SIOs together with the introduction of "Mobile Plus" plans for our business customers have given rise to higher handheld data revenues as well as promoting greater data usage.



The rate of growth in wireless broadband (data cards) revenue increased slightly in the second half of the year with revenues growing very strongly by 34.1% to $787 million for the full year. Wireless broadband SIOs reached 1.654 million, up by 608 thousand or 58.1% during the fiscal year and by 329 thousand in the second half as penetration of the product continues to increase. Wireless broadband ARPU continued to decline as the expanded customer base included a greater proportion of prepaid customers and many new postpaid customers took lower priced plans.



Postpaid retail mobile services revenue grew 4.8% to $5,025 million for the year. At the end of June, postpaid SIOs were 7.016 million, up 447 thousand for the full year. Customer acquisition momentum increased in the second half of the year with retail postpaid services up by 278 thousand in the second half following the successful launch of new consumer and business postpaid capped plans.

Prepaid retail mobile services revenue totalled $744 million for the year, up by 16.6% on the prior year. Prepaid retail SIOs were 3.546 million, down 103 thousand in the half and down 76 thousand in the year. Total retail mobile SIOs at the end of June 2010 were 10.562 million, up 175 thousand for the half and 371 thousand for the year.

We believe that unique users (defined as the number of active SIM cards in any given month) is a more representative and less volatile measure of our revenue-generating prepaid customers. Over the last three months of the fiscal year, average prepaid handheld unique users were 1,889 thousand, a decrease of 32 thousand on the average for the three months to December 2009.

Managing mobile SARCs to achieve profitable growth continues to be a focus for each of the retail business segments. Our blended retail SARC rate increased by 11.3% to $155. This was predominately caused by the increase in the proportion of smartphones, including the iPhone# which made up 24% of new connections during the year and 35% of our subsidy costs.

Mobile hardware revenue returned to positive growth this year due to a substantial increase in volumes sold particularly in the second half of the fiscal year combined with a change in the mix of our devices to a wider range of smartphones such as the Apple iPhone, Blackberry smartphone and HTCΦ DesireΦ.

Full year results and operations review - June 2010

IP and data access

- IP and data access revenue grew by 1.7% with the increase in IP access revenue more than offsetting the decrease in legacy data access revenue
- IP MAN and IP WAN revenue and SIOs grew strongly as more customers are leveraging the capabilities of our Telstra Next IP® network

IP and data access

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Specialised data	**482**	628	(146)	**(23.2%)**
Global products	**117**	130	(13)	**(10.0%)**
IP access	**835**	676	159	**23.5%**
Wholesale internet and data	**338**	308	30	**9.7%**
Total IP and data access revenue	**1,772**	1,742	30	**1.7%**
Domestic frame access ports (thousands)	**18**	23	(5)	**(21.7%)**
Hyperconnect retail services in operation (thousands)	**35**	26	9	**34.6%**
Symmetrical HDSL services in operation (thousands)	**26**	24	2	**8.3%**
IP MAN services in operation (thousands)	**21**	17	4	**23.5%**
IP WAN services in operation (thousands)	**95**	81	14	**17.3%**

Note: statistical data represents management's best estimates.

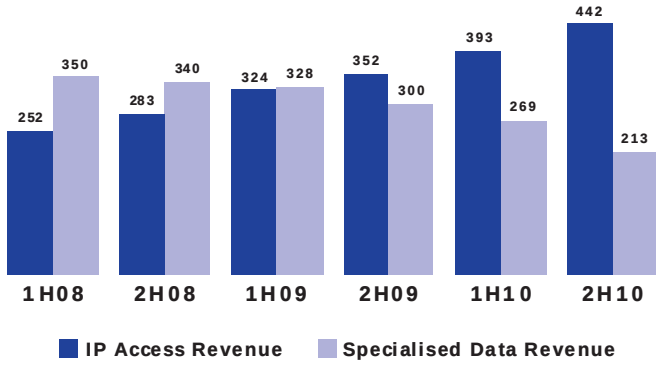
Total IP and data access revenue increased by 1.7% to $1,772 million. This growth was driven by IP access and wholesale internet and data, but was partially offset by the decline in legacy specialised data and global products.

The transition to the Telstra Next IP® network from legacy data networks and other data products was clearly evident in the revenue trends. IP access revenue increased by 23.5% to $835 million as customers sought the scaleability, security and reliability, reduced duplication and complexity as well as the integration of the Next IP™ network with the Next G™ network for advanced applications and solutions. Growth accelerated to 25.6% in the second half of the fiscal year from 21.3% in the first half.

IP MAN revenue grew by 38.6% to $445 million and SIOs increased by 4 thousand or 23.5%. IP MAN provides customers with their own virtual private network using the IP protocol across a metropolitan area which can link two or more sites into the virtual private network. This allows sites to network with each other with access speeds of 2Mbps to 1,000Mbps. IP WAN revenue also climbed by 8.7% to $226 million and SIOs increased by 14 thousand or 17.3%. IP WAN allows businesses to use a single data connection in each location and then rely on the built-in intelligence and security of our Next IP™ network to manage the routing and delivery of data between local and international locations.

As our customers migrated to IP solutions, there was an accelerated decline of specialised data revenue including frame relay, digital data services and leased lines. Revenue in this category fell by 23.2% for the year to $482 million, and included a 29.0% decline in the second half.

IP Access v Specialised Data Revenue ($m)



Wholesale internet and data revenue increased by 9.7% to $338 million driven by higher demand for capacity and backhaul while global products revenue declined by 10.0% as currency impacts reduced Australian dollar revenue and excess underlying global fibre capacity drove bandwidth prices down.

Full year results and operations review - June 2010

Business services and applications

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Business services and applications revenue	**936**	1,115	(179)	**(16.1%)**

The decline in business services and applications revenue was due to the sale of the KAZ business in April 2009 and the consequent absence of this revenue. Excluding KAZ from the prior year, revenue grew by 5.3% or $47 million partly driven by strong growth in managed network services revenue due to an increase in the value of managed WAN equipment being financed and the roll out of communications infrastructure with several key customers.

There has also been continued strong revenue growth in relocation and infrastructure works associated with major projects.

Partly offsetting the above growth has been a decline in IT services revenue due to the exit of a major desktop contract and a reduction in revenue in the managed voice portfolio.

Advertising and directories

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Sensis advertising and directories revenue	**2,127**	2,241	(114)	**(5.1%)**
Other advertising revenue	**38**	18	20	**111.1%**
Total advertising and directories revenue	**2,165**	2,259	(94)	**(4.2%)**

Our advertising and directories revenue is predominantly derived from our wholly owned company Sensis (Australia's leading information resource) and its controlled entities. For a detailed description of the performance of Sensis please refer to the financial summary on page 25.

Other advertising revenue represents revenue from our Trading Post business which was transferred from Sensis on 1 April 2009. Trading Post® is now exclusively an online and mobile classifieds service as the final print editions were published on 29 October 2009. Taking into account revenue recorded in Sensis in the prior year, Trading Post revenue has declined by $48 million to $38 million in the current year.

Offshore controlled entities

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
CSL New World	**770**	989	(219)	**(22.1%)**
TelstraClear	**529**	547	(18)	**(3.3%)**
Other offshore controlled entities revenue	**293**	390	(97)	**(24.9%)**
Total offshore controlled entities revenue	**1,592**	1,926	(334)	**(17.3%)**

For further details regarding the performance of CSL New World (CSLNW) and TelstraClear, please refer to their respective business summaries commencing on page 26.

Revenue from offshore controlled entities declined by $334 million in the year with foreign currency movements causing $222 million of the overall decline.

The decline in other offshore controlled entities revenue of $97 million includes $58 million attributable to foreign currency translation. Excluding this impact, Europe has recorded a $38 million reduction due mainly to unfavourable churn in data and voice products with some customers reducing or cancelling their services after being impacted by the global economic conditions.

Full year results and operations review - June 2010

Pay TV bundling

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Pay TV bundling revenue	**511**	467	44	**9.4%**
Total pay TV bundling SIOs (thousands)	**504**	450	54	**12.0%**

Note: statistical data represents management's best estimates.

Total pay TV bundling revenue increased by 9.4% to $511 million. This growth includes the impact of the cessation of our AUSTAR[!] agreement during fiscal 2009. FOXTEL[(1)] bundling revenue increased by 14.3% due to a 12% increase in FOXTEL bundled pay TV SIOs to 504 thousand and a 4.1% rise in FOXTEL bundling ARPU.

The growth in SIOs was driven by increased take up of bundled offers with other Telstra products and services and marketing campaigns during the year, including 12 month contracts and new introductory offers. The growth in ARPU was helped by strong sales of platinum packages and FOXTEL iQ[†]. During the fiscal year, there has been a 16 percentage point increase in FOXTEL iQ penetration.

Other revenue

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Distributions received	**60**	100	(40)	**(40.0%)**
Rental income	**44**	36	8	**22.2%**
Total other revenue	**104**	136	(32)	**(23.5%)**

Distributions received relate to distributions from our FOXTEL partnership and represent a $40 million reduction year on year.

Other income

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Proceeds from asset and investment sales	**27**	225	(198)	**(88.0%)**
Cost of asset and investment sales	**25**	225	(200)	**(88.9%)**
Net gain on assets/investment sales	**2**	-	2	**n/m**
USO levy receipts and subsidies	**65**	62	3	**4.8%**
Miscellaneous income	**45**	45	-	**-**
Other income	**110**	107	3	**2.8%**
Total other income	**112**	107	5	**4.7%**

There was little change to the amount of total other income as there were no material gains on assets sold during the year while the USO levy receipts and subsidies and miscellaneous income were relatively stable this year.

Fiscal 2009 asset sales included the sale of the KAZ group for proceeds of $208 million.

(1) FOXTEL marks are used under licence by FOXTEL Management Pty Ltd

Full year results and operations review - June 2010

Expenses

Labour

- Reported labour costs reduced by 10.3% due to the sale of the KAZ business, lower incentive expenses, the impact of changes in the bond rate on our long service leave provisions as well as lower redundancy activity and ongoing productivity improvements
- We have exceeded our 5 year target range of 10,000 to 12,000 workforce FTE reductions set in 2005 with 12,192 workforce FTEs reduced since 1 July 2005 (excluding investments and divestments)

Labour

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Labour	**3,707**	4,131	(424)	**(10.3%)**
Domestic full time employees (whole numbers) (i)	**31,157**	31,662	(505)	**(1.6%)**
Full time employees and employed equivalents (whole numbers) (ii)	**41,690**	39,464	2,226	**5.6%**
Total workforce, including contractors and agency staff (whole numbers) (iii)	**45,220**	43,181	2,039	**4.7%**
Current year reduction in total workforce excluding acquisition/divestment activity (iv)	**(527)**			
Reduction in total workforce to June 2009 excluding acquisition/divestment activity against November 2005 announcement (iv)	**(11,665)**			
Total reduction in workforce (iv)	**(12,192)**			

Note: statistical data represents management's best estimates.

(i) Our domestic full time employees include domestic full time staff, domestic fixed term contracted staff and expatriate staff in overseas subsidiary entities.
(ii) Our full time employees and equivalents include domestic full time employees plus casual and part time employees and employees in our offshore subsidiary entities.
(iii) Our total workforce includes full time employees and equivalents plus contractors and staff employed through agency arrangements measured on an equivalent basis.
(iv) The reduction in total workforce against our 10,000 to 12,000 FTE (full time equivalent) 5 year reduction target excludes the ongoing acquisition impacts of SouFun Holdings Ltd and the Chinese entities Sequel, Octave and Lmobile, our divestments of Telstra eBusiness Group, KAZ, Australian Administration Services Pty Ltd and Universal Publishers as well as the impact of CSL's merger with NewWorld PCS Mobility. All of these transactions have taken place since the announcement of the 5 year target.

Reported labour expenses declined by 10.3% this year due to the sale of the KAZ business, lower incentive expenses, the impact of the bond rate changes, lower redundancies as well as ongoing productivity improvements. On an adjusted[1] basis labour expenses fell by 6.2% or $246 million.

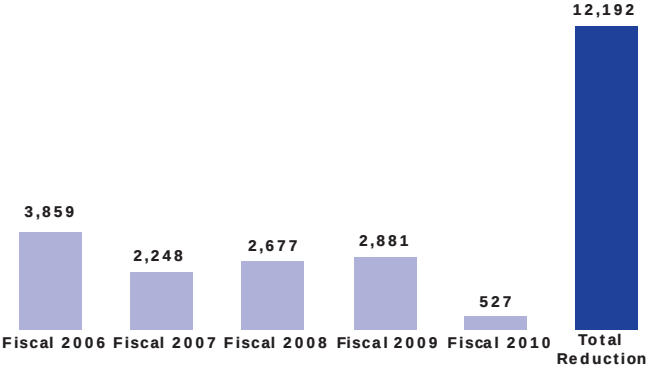
The sale of the KAZ business contributed $137 million of the decline in labour expenses. Another key driver of the decrease in labour expenses was a reduction of $109 million in the amount recognised under our short and long term incentive plans for the fiscal 2010 year. Our labour expenses also declined by $77 million as a consequence of the increase in the 10 year bond rate, which resulted in a revaluation of our long service leave balances.

Redundancy costs declined significantly by 42% as redundancy activity slowed following the conclusion of our 5 year staff reduction program. The prior year also included staff reductions and redundancy costs associated with our marketing simplification program which have created salary cost savings in the current year. Other factors contributing to the decline in labour expenses included lower contract / agency payments as a result of ongoing productivity and rebalancing initiatives.

Partly offsetting these were annual pay rises, an increase in our pre tax contributions to the Telstra Superannuation Scheme, increases in pension costs and bonus costs recognised for staff as a result of the achievement of our customer satisfaction target.

In terms of staff numbers, this year we increased our total workforce by 2,039 FTEs due mainly to an increase of 2,584 in our Chinese entity SouFun as that business continues to expand. Significant workforce reductions were achieved in most other areas of the business as a result of increased efficiencies and streamlining our field workforce and call centres as part of our cost reduction program.

Workforce FTE Reduction over 5 Years



1. *Adjusting for currency movements and the sale of KAZ.*

Full year results and operations review - June 2010

Goods and services purchased

- On a reported basis, total goods and services purchased increased by 0.9% or $47 million from the prior year
- Cost of goods sold increased by $180 million or 9.5% as a result of higher smartphone sales and increases associated with enterprise related sales activities
- Network payments fell by $174 million driven by a decline in offshore network payments of $180 million due to reductions in CSLNW and other offshore entities and foreign currency movements

Goods and services purchased

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Cost of goods sold - subsidies (postpaid)	**598**	559	39	**7.0%**
Cost of goods sold - other	**1,478**	1,337	141	**10.5%**
Usage commissions	**339**	307	32	**10.4%**
Network payments	**1,808**	1,982	(174)	**(8.8%)**
Service fees	**568**	510	58	**11.4%**
Managed services	**133**	190	(57)	**(30.0%)**
Dealer performance commissions	**99**	102	(3)	**(2.9%)**
Paper purchases and printing	**119**	134	(15)	**(11.2%)**
Other	**218**	192	26	**13.5%**
Total goods and services purchased	**5,360**	5,313	47	**0.9%**
Retail domestic subscriber acquisition and recontracting costs (SARC) (i)	**714**	630	84	**13.3%**

(i) Domestic subscriber acquisition and recontract costs include $580 million of domestic handset subsidy costs (June 2009: $511 million) and other go to market costs included within cost of goods sold-other and other goods and services purchased.

Reported goods and services purchased increased by 0.9% primarily driven by higher cost of goods sold, offset by lower network payments. The change has also been impacted by the sale of the KAZ business, currency movements and on an adjusted[1] basis, the increase was 4.3%. Total goods and services purchased for the second half of the fiscal year were $2,745 million, a 5.0% increase from the first half.

Cost of goods sold - other increased by 10.5% or $141 million mostly due to:

- increased sales of smartphones at a higher average cost in our consumer segment;
- growth in IP telephony, unified communications and managed WAN cost of goods sold driven by growth in our enterprise and government business;

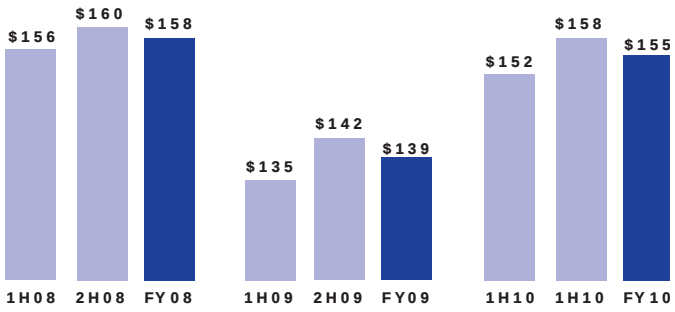
partly offset by

- a reduction in domestic costs due to a decline in BigPond® wireless and fixed internet volumes as well as a decrease in the average cost per unit; and
- the sale of the KAZ business.

Cost of goods sold - subsidies (postpaid) recorded a 7.0% or $39 million increase from the prior year due to both a combination of increased SARC rates as well as increased volumes:

- retail domestic SARC costs increased by 13.3% or $84 million whilst the SARC rate per phone increased by 11.3% from the prior year to $155. The SARC increases were driven by increased demand for more expensive smartphones such as the Apple iPhone#, HTCΦ DesireΦ and Blackberry‡ smartphone;
- an increase in postpaid subsidised volumes as a proportion of postpaid handsets sold as we responded to an increasingly competitive market; and partially offset by
- subsidy costs within CSLNW were lower by $24 million due to reduced handset sales and the impact of foreign currency.

Blended Average SARC Rate Trend by Half-Year



Service fees increased by 11.4% or $58 million from the prior year, mainly supporting strong growth in FOXTEL pay TV bundling sales volumes.

These increases in goods and services costs were partly offset by a $174 million decline in network payments from the prior fiscal year. The major driver of the decline was offshore outpayments which decreased by $190 million predominantly in CSLNW ($118 million decline) driven by an adjustment for backhaul and interconnect charges following a favourable dispute

1. *Adjusting for currency movements and the sale of KAZ.*

Full year results and operations review - June 2010

settlement, the renegotiation of data pack contracts with key partners, lower outbound roaming revenue as well as foreign exchange impacts. Offshore outpayments were also lower in Telstra Europe by $47 million mainly due to reductions in voice revenue and foreign exchange impacts. These were partly offset by domestic network outpayments growing by $35 million driven by higher SMS and MMS offnet volumes.

Managed service costs decreased by 30.0% from the prior year mainly due to the sale of KAZ and the exit of large desktop contracts.

Other expenses

- Total other expenses declined by 2.1% this fiscal year and on an adjusted[1] basis other expenses declined by 4.0%
- Impairment and diminution expenses increased by $246 million due to an impairment charge of $168 million in our CSL New World investment and $80 million driven by higher bad and doubtful debts
- Service contracts and other agreements reduced by $114 million or 4.8%
- General and administration costs declined by $108 million as we continue to focus on cost control

Other expenses

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Property, motor vehicle and IT rental expense	**565**	614	(49)	**(8.0%)**
Net foreign currency conversion losses / (gains)	**(1)**	16	(17)	**(106.3%)**
Service contracts and other agreements	**2,275**	2,389	(114)	**(4.8%)**
Promotion and advertising	**349**	379	(30)	**(7.9%)**
General and administration	**930**	1,038	(108)	**(10.4%)**
Other operating expenses	**406**	442	(36)	**(8.1%)**
Impairment and diminution expenses	**593**	347	246	**70.9%**
Total other expenses	**5,117**	5,225	(108)	**(2.1%)**

Total other expenses declined by 2.1% this fiscal year as a result of the company's continued focus on cost control and boosting productivity. The change was also impacted by currency movements, the sale of the KAZ business and an impairment in CSL New World. On an adjusted basis, other expenses declined by 4.0%.

A significant drop of 5.8% in the first half of fiscal 2010 was slightly offset by growth in the second half of 1.8%. The savings generated across many categories in other expenses in the second half were more than offset by the CSL New World impairment.

Our impairment expenses rose this year due to:

- an impairment to the goodwill associated with the CSL New World investment of $168 million; and
- an increase in bad and doubtful debts of $80 million predominantly in the first half of this fiscal year, as consumer debt delinquency increased due to difficult economic conditions. There has also been a shift in the product mix towards higher risk mobile products. Credit management will be a key focus in fiscal 2011.

Partly offsetting the increase was the decline in service contracts and agreements. Service contracts and agreements costs declined for the first time in five years with a fall of 4.8% or $114 million over the fiscal year, and 5.7% or $69 million in the second half. Drivers of the decline included lower installation and maintenance spend due to improved productivity in the field workforce and favourable weather conditions. There were also lower call centre service costs compared with the previous year where we experienced increased inbound calling volumes and higher average call handling times as customers were migrated onto the new billing systems.

General and administration expenses declined by 10.4% to $930 million, the first decline since fiscal 2006. This was achieved with double digit declines in many categories including IT costs, travel expenditure, legal costs, and postage, printing and stationery. Property outgoing costs also reduced this fiscal year following the consolidation of our Brisbane offices completed in the prior year.

Rental expenses declined by 8.0% from last year. Factors in the decline included the consolidation of office properties and the exiting of significant lease spaces in Sydney and Brisbane, reduced server leasing costs as we purchased servers and the impacts of the sale of the KAZ business and foreign exchange movements.

Promotion and advertising expenses saw a second consecutive year of decline driven by reduced media spend, the consolidation of campaigns, lower direct mail costs and a review of strategic sponsorships.

1. *Adjusting for currency movements, the sale of KAZ and CSL New World impairment.*

Full year results and operations review - June 2010

Share of net profit from jointly controlled and associated entities

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Share of net profit from jointly controlled and associated entities	**(2)**	(3)	1	**33.3%**

Our share of net profit from jointly controlled and associated entities includes our share of both profits and losses from equity accounted investments.

In respect to FOXTEL, REACH and Australia-Japan Cable, as the carrying value of our investments in each has been previously written down to nil, any share of loss/(gain) from these entities is not currently recognised. These entities will resume equity accounting once the accumulated losses have been fully offset by our share of profits derived from these entities.

As at 30 June 2010, our carried forward losses from our share of FOXTEL amounted to $152 million compared to $166 million at 30 June 2009. The decrease of $14 million during the fiscal year was due mainly to our share of FOXTEL's profit for the year of $80 million offset by the $60 million distribution recorded as revenue during the year.

Our share of carried forward losses in REACH and Australia-Japan Cable as at 30 June 2010 were $596 million and $156 million respectively.

Depreciation and amortisation

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Depreciation	**3,440**	3,624	(184)	**(5.1%)**
Amortisation	**906**	766	140	**18.3%**
Total depreciation and amortisation	**4,346**	4,390	(44)	**(1.0%)**

Reported depreciation and amortisation has decreased by 1.0% from the prior year. Taking into account currency movements and the sale of KAZ, on an adjusted basis depreciation and amortisation declined by 0.3%.

The lower depreciation in fiscal 2010 was primarily due to last year's expense including $172 million of accelerated depreciation on CSLNW's legacy mobile network not repeated this fiscal year. This was partially offset by an increase in domestic communications plant depreciation driven by asset additions in core network data, mobile access assets, core transport network and network support infrastructure. Other plant and equipment depreciation also grew due to information technology equipment additions during the year.

Amortisation expense increased by $140 million this year with the amortisation of the Trading Post® masthead (which commenced in July 2009) accounting for $67 million. In addition, investments in the software asset base in customer relationship management applications, billing systems, network operations management and product application areas contributed $75 million to an increase in amortisation on software.

Net finance costs

- Borrowing costs decreased by $140 million or 11.7% due to a reduction in the average yield on debt and a lower level of net debt over the year

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Borrowing costs	**1,059**	1,199	(140)	**(11.7%)**
Finance leases	**12**	9	3	**33.3%**
Capitalised interest (i)	**(73)**	-	(73)	**n/m**
Unwinding of discount on liabilities recognised at present value	**21**	23	(2)	**(8.7%)**
Loss/(gain) on fair value hedges - effective	**26**	(61)	87	**142.6%**
Loss/(gain) on cashflow hedges - ineffective	**5**	(1)	6	**600.0%**
Gain on transactions not in a designated hedge relationship or de-designated from a fair value hedge relationship	**(36)**	(222)	186	**83.8%**
Other	**16**	20	(4)	**(20.0%)**
Finance costs	**1,030**	967	63	**6.5%**
Finance income	**(67)**	(67)	-	**-**
Net finance costs	**963**	900	63	**7.0%**

(i) From 1 July 2009, as a result of changes to accounting standards, certain borrowing costs must be capitalised including borrowing costs incurred on funds borrowed specifically for the purpose of constructing assets that take a substantial period of time to be ready for their intended use.

Full year results and operations review - June 2010

The reduction in net interest on borrowings of $140 million (borrowing costs less finance income) during fiscal 2010 principally arises from:

- a reduction in the average yield on debt (from 7.1% to 6.4%) which was principally due to reductions in short-term market base interest rates during the year flowing through to the floating rate component of our debt portfolio; and
- a reduction in the average volume of net debt over the year.

The reductions from lower interest rates have been somewhat offset by rises in our borrowing margins on new debt raised during the year.

It is important to note that in general it is our intention to hold our borrowings and associated derivative instruments to maturity. Accordingly, unrealised revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and will progressively unwind to nil at maturity.

The movement in the loss/(gain) on fair value hedges - effective of $87 million (moving from a gain in 2009 to a loss in 2010) reflects an improvement in financial markets which has resulted in a partial reversal of previously recognised gains. The net revaluation loss of $26 million in the current year is explained by the contraction in our borrowing margins (which reduces our interest rates) combined with an increase in Australian base market rates (which increases our interest rates). In addition, there is the impact of the net present value calculation as borrowings move one year closer to maturity.

A combination of the following factors has resulted in a net unrealised gain of $36 million (moving by $186 million from a gain of $222 million in fiscal 2009) associated with financial instruments that are either not in a designated hedge relationship or were previously designated in a hedge relationship and no longer qualify for hedge accounting:

- the valuation impacts described above for fair value hedges;
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value); and
- a net loss of $21 million for the amortisation impact of unwinding previously recognised gains on those borrowings that were de-designated from hedge relationships.

Notwithstanding that these borrowings and the related derivative instruments do not satisfy the requirements for hedge accounting, they are in effective economic relationships based on contractual face value amounts and cashflows over the life of the transaction.

Overall, the fair value adjustments to finance costs amount to a net gain of $5 million in fiscal 2010, compared to a net gain of $284 million in fiscal 2009.

Income tax expense and franking account

- Our effective tax rate of 28.9% is slightly lower than the Australian company tax rate due to a number of tax effect adjustments arising during fiscal 2010

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Income tax expense	**1,598**	1,582	16	**1.0%**
Effective tax rate	**28.9%**	28.0%		**0.9**

Income tax expense increased by 1.0% to $1,598 million while reported profit before income tax reduced by 2.1% to $5,538 million. Although profit was lower, the following factors contributed to the increase in income tax expense:

- the origination of a deferred tax liability generated from the change in accounting policy of our Trading Post® masthead which increased income tax expense by $101 million ($81 million after the effects of the profit and loss amortisation);
- an increase in the impairment of goodwill of $181 million predominately relating to CSL New World resulting in an increase of $54 million to income tax expense; and
- a reduction in the investment allowance deduction of $40 million with a related income tax expense of $12 million; partly offset by
- an increase in the tax refund of $145 million attributable to amended assessments to the 2007 and 2008 fiscal years relating to research and development.

The effective tax rate was 28.9% for fiscal 2010 which was slightly higher than the rate of 28.0% in fiscal 2009, and is 1.1 percentage points lower than the Australian company tax rate of 30.0%. This represents a difference of $63 million to the notional income tax expense.

During fiscal 2010, we have paid a total of $1,509 million of tax instalments for the Telstra tax consolidated group relating to the last quarter of fiscal

Full year results and operations review - June 2010

2009 and the first three quarters of fiscal 2010. Franking credits of $1,492 million were used when we paid our final 2009 dividend and 2010 interim dividend. In addition, the 2009 income tax return refund and prior years' tax amendment refunds have resulted in a further reduction of $333 million in our franking credits.

Following the above movements, our franking account balance was $138 million in deficit as at the end of fiscal 2010. Our exempting account balance is $24 million, however there are statutory restrictions placed on the distribution of credits from this account. Consequently, it is unlikely that we will be able to distribute our exempting credits. We believe that our current balance in the franking account, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our final 2010 dividend.

Major subsidiaries - financial summaries

Below is a financial summary of our three largest subsidiaries: Sensis, CSL New World and TelstraClear. This information is complementary to the product analysis previously provided in the document and is intended to show these businesses as stand alone entities.

Sensis financial summary

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Total income	**2,253**	2,301	(48)	**(2.1%)**
Operating expenses (excl. depreciation and amortisation)	**1,031**	1,106	(75)	**(6.8%)**
EBITDA contribution	**1,222**	1,195	27	**2.3%**
Depreciation and amortisation	**118**	128	(10)	**(7.8%)**
EBIT contribution	**1,104**	1,067	37	**3.5%**
Capital expenditure	**102**	219	(117)	**(53.4%)**
EBITDA margin on sales revenue	**54.0%**	52.0%		**2.0**

Amounts included for Sensis represent the contribution to Telstra's consolidated result.

Sensis total income is split into the following categories:

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
- Yellow Pages® revenue	**1,265**	1,318	(53)	**(4.0%)**
- White Pages® revenue	**415**	412	3	**0.7%**
- Classifieds revenue	**-**	68	(68)	**(100.0%)**
- Digital marketing services	**74**	99	(25)	**(25.3%)**
- Voice revenue	**139**	143	(4)	**(2.8%)**
- Chinese online businesses (i)	**234**	201	33	**16.4%**
Total Sensis advertising and directories	**2,127**	2,241	(114)	**(5.1%)**
Chinese content (ii)	**118**	50	68	**136.0%**
Other sales revenue	**16**	9	7	**77.8%**
Total Sensis sales revenue	**2,261**	2,300	(39)	**(1.7%)**
Other income	**(8)**	1	(9)	**(900.0%)**
Sensis total income	**2,253**	2,301	(48)	**(2.1%)**

Note: The income breakdown shown here has been updated since December 2009 reporting to reflect the view used to manage the business.

(i) The Chinese online businesses results are unaudited management accounts converted from local currency into Australian Dollars.

(ii) June 2009 figures have been restated to include the results of the Octave business which was transferred from our Chief Marketing Officer segment in January 2010. This business was originally acquired in February 2009.

Sensis is our advertising subsidiary. Sensis helps you find, buy and sell through service offerings including Yellow Pages®, White Pages®, 1234, Citysearch®, Whereis® and our MediaSmart digital display advertising business. Sensis also manages the group's advertising assets in China through interests in SouFun, Sequel, Octave and Lmobile.

Reported sales revenue at Sensis declined by 2.1% since the prior year however profitability of the business improved with reported EBITDA up 2.3% and EBITDA margins increasing by 2 percentage points to 54.0%. Performance also improved in the domestic business during the second half of the year.

There were a number of changes to the Sensis group that impacted the above growth rates during both fiscal

Full year results and operations review - June 2010

2010 and 2009. This included the transfer of the Trading Post business to Telstra Media (March 2009), and the transfer of the Octave business from the Chief Marketing Office (January 2010). We also acquired Lmobile (February 2010) and disposed of Universal Publishers (September 2009).

Adjusting for all of these businesses and for currency movements, sales revenue grew by 1.0%, operating expenses (excluding depreciation and amortisation) declined by 0.7% and EBITDA growth was 2.4%. The improvement in the EBITDA margin this fiscal year was due to lower directly variable costs and continued cost control on labour and discretionary spend.

In respect of the domestic Sensis business, normalised revenue after adjusting for Trading Post and Universal Publishers declined by 2.9%, expenses decreased by 8.5% and EBITDA grew by 1.5%.

In terms of performance of the different areas of the Sensis group:

- Yellow Pages® and White Pages® revenue declined by 2.9% for the year due largely to the impact of the global financial crisis on the advertising and small to medium enterprise sectors. Print directories revenue declined by 5.1% (Yellow Pages® print down 6.9% and White Pages® print down 0.2%), while digital directories experienced solid growth of 10%. Sensis' ability to integrate print, voice and a growing array of digital media (online, mobile, mobile applications, Apple iPad#, T-Hub®) into multi-platform advertising networks offers advertisers a powerful return on investment and creates exciting opportunities for digital growth.
- Our Chinese online business (which includes our interests in SouFun and Sequel) delivered a solid performance with revenue growth of 16.4% to $234 million. SouFun operates the leading real estate and home-related vertical website in China. Our Sequel businesses, Autohome and CHE168 are number one in online auto, while PCPop and IT168 are number two in online consumer electronics.
- Chinese content grew 136% from $50 million to $118 million. The was mainly driven by the Octave business being transferred into the Sensis group in January 2010 from our Chief Marketing Office segment and the prior year including only 5 months of revenue results as it was acquired in February 2009.
- Voice revenue declined 2.8% to $139 million with consumer revenue down 2.5% as fewer calls were made to our premium directory service 12456 call connect and directory assistance. Voice advertising revenue grew 5.7%.

Depreciation and amortisation declined by $10 million mainly due to prior year accelerated depreciation on our old core business platform. There was also an extension to the service life of some software asset classes.

Capex decreased by $117 million as we completed work on our core IT business platform this fiscal year.

CSL New World financial summary

	Year ended 30 June			Year ended 30 June		
	2010 A$m	2009 A$m	**Change %**	**2010 HK$m**	2009 HK$m	**Change %**
Total income	**774**	989	**(21.7%)**	**5,286**	5,675	**(6.9%)**
Operating expenses (excl. depreciation & amortisation)	**557**	750	**(25.7%)**	**3,806**	4,288	**(11.2%)**
EBITDA	**217**	239	**(9.2%)**	**1,480**	1,387	**6.7%**
Depreciation and amortisation	**96**	342	**(71.9%)**	**606**	1,699	**(64.3%)**
EBIT	**121**	(103)	**217.5%**	**874**	(312)	**380.1%**
Capital expenditure	**88**	148	**(40.5%)**	**600**	836	**(28.2%)**
EBITDA margin on sales revenue	**28.1%**	24.2%	**3.9**	**28.1%**	24.4%	**3.7**
Mobile SIOs (thousands)	n/a	n/a	n/a	**2,641**	2,450	**7.8%**

Amounts presented in HK$ have been prepared in accordance with A-IFRS. Amounts presented in A$ represent amounts included in Telstra's consolidated result including additional depreciation and amortisation arising from the consolidation of fair value adjustments. EBITDA margin differences arise mainly from monthly average rates used for conversion from HK$ to A$.

Note: Statistical data represents management's best estimates.

CSL New World is our Hong Kong based wireless business and operates in an intensely competitive 5 player market.

In local currency, EBITDA grew 6.7% due to improvements in gross margin despite a sales revenue decline of 6.9%.

Revenue performance was negatively impacted by lower local voice yields and reduced international roaming driven by lower outbound travel among CSL New World's customer base since the beginning of the Global Financial Crisis (GFC). Handset revenue also declined due to the general weakness in demand for devices. With the Hong Kong economy recovering in the second half, roaming revenue has shown signs of improvement. We also expect smartphone sales to increase following additions to the range. Data revenue performed strongly driven by customers substituting voice for data communication whilst prepaid revenues grew as a result of an increase in the prepaid customer base.

Full year results and operations review - June 2010

Operating expenses excluding depreciation and amortisation decreased 11.2% in HK$ due to a combination of lower directly variable costs as a result of lower handset sales, lower network payments driven by a favourable dispute settlement and lower discretionary expenses driven by tight cost control, leading to the improvement in EBITDA margin.

The year on year change in the HK$/AUD$ exchange rate resulted in a decrease in consolidated total income of A$153 million which was partially offset by a corresponding decrease in expenses (including depreciation and amortisation) of A$130 million.

The decrease in capital expenditure of 28.2% in HK$ was largely due to lower network capex in light of the Next G™ network build being completed during last year.

TelstraClear financial summary

	Year ended 30 June			Year ended 30 June		
	2010 A$m	2009 A$m	**Change %**	**2010 NZ$m**	2009 NZ$m	**Change %**
Total income	**530**	547	**(3.1%)**	**666**	671	**(0.7%)**
Operating expenses (excl. depreciation & amortisation)	**425**	439	**(3.2%)**	**533**	539	**(1.1%)**
EBITDA contribution	**105**	108	**(2.8%)**	**133**	132	**0.8%**
Depreciation and amortisation	**118**	121	**(2.5%)**	**141**	141	**0.0%**
EBIT contribution	**(13)**	(13)	**0.0%**	**(8)**	(9)	**(11.1%)**
Capital expenditure	**72**	77	**(6.5%)**	**88**	96	**(8.3%)**
EBITDA margin on sales revenue	**19.9%**	19.7%	**0.2**	**20.0%**	19.7%	**0.3**

Amounts presented in NZ$ represent the New Zealand business excluding intercompany transactions and have been prepared in accordance with A-IFRS. Amounts presented in A$ represent amounts included in Telstra's consolidated result and include the Australian dollar value of adjustments to consolidate TelstraClear into the Group result.

For the year ended 30 June 2010, revenue in New Zealand (excluding trans Tasman intercompany revenue) has decreased by 0.7% in local currency, in a difficult economic environment.

Growth in the business market has been challenging and this had been offset by higher revenues from the consumer segment. Overall, consumer revenue grew by 8.1% with both on-net and off-net services increasing year on year. The consumer hybrid fibre coaxial (HFC) cable network in Wellington and Christchurch continues to be a strong source of growth, with recent investment made to deliver superior speeds on this network. Further access had been provided by unbundling the local loop (ULL) in off-net areas, with over 60 exchanges completed during the year.

Operating expenses (excluding depreciation and amortisation) decreased 1.1%. This was managed through tight cost control partially offset by an increase in bad and doubtful debts impacted by the slow economic climate.

In A$, we saw a 3.1% decline in total income to $530 million. With adjustments on consolidation, this decline has not been offset by the decline in operating costs, therefore reported EBITDA declined 2.8% in the year to A$105 million.

The year on year change in the NZD$ versus the AUD$ exchange rate resulted in a decrease in consolidated total income of A$12 million which was offset by a decrease in expenses (including depreciation and amortisation) of $13 million.

Capex spend is lower by 8.3% with investments focussed on increasing access reach (ULL) and enhancing network speed and capacity.

On a standalone basis, adjusting for intercompany revenues, total income declined by 1.4% and EBITDA declined by 1.3%.

TelstraClear standalone financial results

	Year ended 30 June		
	2010 NZ$m	2009 NZ$m	**Change %**
Total income	**693**	703	**(1.4%)**
Operating expenses (excl. depreciation & amortisation)	**536**	544	**(1.5%)**
EBITDA	**157**	159	**(1.3%)**
Depreciation and amortisation	**141**	141	**0.0%**
EBIT	**16**	18	**(11.1%)**
EBITDA margin on sales revenue	**23.6%**	23.7%	**(0.1)**

Full year results and operations review - June 2010

Statement of financial position

- Given the strength of our balance sheet and our debt maturity profile we continue to be able to borrow from the market on competitive terms

Statement of financial position

	As at			
	30 Jun 10 $m	30 Jun 09 $m	Change $m	**Change %**
Current assets				
Cash and cash equivalents	**1,936**	1,381	555	**40.2%**
Other current assets	**5,249**	4,811	438	**9.1%**
Total current assets	**7,185**	6,192	993	**16.0%**
Non current assets				
Property, plant and equipment	**22,894**	23,895	(1,001)	**(4.2%)**
Intangible assets	**8,028**	8,416	(388)	**(4.6%)**
Other non current assets	**1,175**	1,459	(284)	**(19.5%)**
Total non current assets	**32,097**	33,770	(1,673)	**(5.0%)**
Total assets	**39,282**	39,962	(680)	**(1.7%)**
Current liabilities				
Borrowings	**2,540**	1,979	561	**28.3%**
Other current liabilities	**6,142**	5,773	369	**6.4%**
Total current liabilities	**8,682**	7,752	930	**12.0%**
Non current liabilities				
Borrowings	**12,370**	15,344	(2,974)	**(19.4%)**
Other non current liabilities	**5,222**	4,185	1,037	**24.8%**
Total non current liabilities	**17,592**	19,529	(1,937)	**(9.9%)**
Total liabilities	**26,274**	27,281	(1,007)	**(3.7%)**
Net assets	**13,008**	12,681	327	**2.6%**
Equity				
Equity available to Telstra entity shareholders	**12,696**	12,418	278	**2.2%**
Non-controlling interests	**312**	263	49	**18.6%**
Total equity	**13,008**	12,681	327	**2.6%**

Our balance sheet remains in a healthy state with net assets of $13,008 million, an increase of 2.6%. During fiscal 2010 we have conducted a number of capital raisings in the debt markets including executing a €1bn 10 year benchmark bond issue in March 2010 with a maturity of March 2020.

Major balance sheet movements included:

- other current assets grew by 9.1% mainly due to the reclassification of $579 million relating to the carrying value of SouFun assets and goodwill which are now treated as held for sale. This follows from the announcement that the shareholders of SouFun have commenced a process to prepare SouFun for an initial public offering in calendar 2010 and our announcement that we propose to sell down our shareholding as part of that process. Other significant movements include increases in inventories and derivative assets, offset by decreases in current tax assets, prepayments and trade debtors;
- property, plant and equipment declined mainly due a reduction in the level of capital expenditure. Significant reductions included communication plant assets in relation to our core and fixed access network as ongoing depreciation and retirements exceeded the level of additions;
- intangible assets decreased by 4.6% due to the reclassification of SouFun goodwill to held for sale assets as mentioned above, the impairment of CSL New World goodwill and foreign exchange movements. These decreases were offset by an increase in goodwill due to the acquisition of Lmobile during February 2010 as well as an increase in software intangibles due to continued investment in our billing systems;
- other non current assets decreased primarily due to a $481 million decrease in the value of our non current derivative assets which have decreased in line with revaluation gains recognised in borrowings, partly offset by an increase in tax receivable;
- total current and non current borrowings decreased by $2,413 million due to net borrowing and finance lease repayments of $894 million funded by positive cashflows from the underlying business, as well as net non-cash movements of $1,519 million primarily due to revaluation gains arising from the strengthening of the Australian dollar;
- other current liabilities increased mainly due to derivative liabilities which have increased in line with the revaluation gains recognised in borrowings; and

Full year results and operations review - June 2010

- other non current liabilities increased primarily due to an increase in the non current portion of derivative liabilities of $699 million and deferred tax liabilities of $334 million primarily relating to intangibles.

Our gross debt position at 30 June 2010 was $16,031 million, a reduction of $1,005 million from 30 June 2009. The reduction is mainly due to a net repayment of debt of $954 million ($894 million in borrowings and $60 million in associated derivative instruments) and a net non-cash revaluation gain of $139 million recognised in equity and profit, offset by $88 million of finance lease additions.

Net debt at 30 June 2010 was $13,926 million which reflects a decrease of $1,729 million from 30 June 2009. The decrease comprises the reduction in gross debt and a net increase in cash and cash equivalents (including the net cash portion of SouFun assets moved to held for sale of $169 million included in other current assets) of $724 million. The increase in cash and cash equivalents reflects the significant increase in free cashflow compared to fiscal 2009 and our general strategy to hold higher levels of cash post the global financial crisis. The decrease in net debt contributed to our net gearing ratio (net debt to capitalisation) falling from 55.2% as at 30 June 2009 to 51.7% as at 30 June 2010.

Capital expenditure

- Accrued capex declined by 24.5% to $3,471 million or 14% of sales revenue, in line with our guidance
- The decline was driven by a reduction in demand driven programs and following the completion of several major projects

Operating capex by technology on an accruals basis

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Fixed access	**547**	708	(161)	**(22.7%)**
IT	**652**	1,127	(475)	**(42.1%)**
Land and buildings	**252**	283	(31)	**(11.0%)**
Network core	**492**	628	(136)	**(21.7%)**
Products	**247**	265	(18)	**(6.8%)**
Sensis domestic	**94**	212	(118)	**(55.7%)**
Transmission	**240**	369	(129)	**(35.0%)**
Wireless access	**349**	430	(81)	**(18.8%)**
International (offshore)	**180**	301	(121)	**(40.2%)**
Other	**418**	275	143	**52.0%**
Operating capital expenditure	**3,471**	4,598	(1,127)	**(24.5%)**

Operating capex by investment driver on an accruals basis

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
New revenue/growth	**326**	261	65	**24.9%**
Business improvement	**720**	1,207	(487)	**(40.3%)**
Customer demand & experience	**1,573**	1,977	(404)	**(20.4%)**
Lifecycle maintenance	**471**	444	27	**6.1%**
Legal and regulatory compliance	**7**	11	(4)	**(36.4%)**
Sensis domestic	**94**	212	(118)	**(55.7%)**
International	**280**	486	(206)	**(42.4%)**
Operating capital expenditure	**3,471**	4,598	(1,127)	**(24.5%)**

We manage our capex expenditure internally using an investment driver activity view rather than a technology view, which is how capex has been disclosed in previous periods. The activity view is more customer centric, providing a technology agnostic view of capex. Both views are presented for this year.

Our operating capital expenditure declined by 24.5% to $3,471 million in fiscal 2010 mainly due to the following:

- business improvement spend decreased by $487 million this year as the focus shifted to system enhancements involving the completion and delivery of remaining functionality following the major IT program releases of fiscal 2009;
- customer demand and experience spend fell by $404 million this year due principally to a reduction across demand driven programs relating to new estates, redevelopment and order driven services. Last year's spend also included large infrastructure programs and network robustness initiatives;
- international spend decreased by $206 million this year following significant capacity acquisitions and network upgrades in the prior year and reduced spend by TelstraClear on augmentation and connection; and

Full year results and operations review - June 2010

- Sensis domestic spend decreased by $118 million following the completion of the significant core platform refresh program and completion of the integration fabric/downstream project.

Partly offsetting the above are increases in the following categories:

- spend on capex relating to new revenue/growth increased by $65 million as numerous projects were commenced in fiscal 2010 including our cloud computing strategy and initiatives related to set top boxes and internet based television and movies; and
- lifecycle maintenance expenditure increased by $27 million due to investment in data centre capacity growth.

Cashflow summary

- Free cashflow ended the year at $6,225 million, growing year on year by $1,860 million or 42.6%
- Guidance was exceeded by $225 million
- The primary driver for our free cashflow growth was attributable to a 25.0% reduction in capital expenditure

Cashflow summary

	Year ended 30 June			
	2010 $m	2009 $m	Change $m	**Change %**
Cashflows from operating activities				
Receipts from customers (inclusive of GST)	**27,128**	27,719	(591)	**(2.1%)**
Payments to suppliers and to employees (inclusive of GST)	**(16,218)**	(17,074)	856	**(5.0%)**
Net cash generated by operations	**10,910**	10,645	265	**2.5%**
Income taxes paid	**(1,219)**	(1,647)	428	**(26.0%)**
Net cash provided by operating activities	**9,691**	8,998	693	**7.7%**
Cashflows from investing activities				
Payments for property, plant and equipment	**(2,718)**	(3,263)	545	**(16.7%)**
Payments for intangible assets	**(877)**	(1,531)	654	**(42.7%)**
Capital expenditure (before investments)	**(3,595)**	(4,794)	1,199	**(25.0%)**
Payments for investments	**(95)**	(241)	146	**(60.6%)**
Total capital expenditure	**(3,690)**	(5,035)	1,345	**(26.7%)**
Proceeds from asset sales and finance leases	**93**	79	14	**17.7%**
Proceeds from sale of shares in controlled entities	**11**	197	(186)	**(94.4%)**
Loans to jointly controlled and associated entities	**-**	(4)	4	**n/m**
Distributions received from FOXTEL Partnership	**60**	100	(40)	**(40.0%)**
Interest received	**66**	65	1	**1.5%**
Settlement of hedges in net investments	**(6)**	(35)	29	**(82.9%)**
Net cash used in investing activities	**(3,466)**	(4,633)	1,167	**(25.2%)**
Operating cashflows less investing cashflows	**6,225**	4,365	1,860	**42.6%**
Cashflows from financing activities				
Movements in borrowings	**(899)**	830	(1,729)	**(208.3%)**
Repayment of finance lease principal amounts	**(55)**	(36)	(19)	**52.8%**
Staff repayments of share loans	**9**	11	(2)	**(18.2%)**
Finance costs paid	**(1,042)**	(1,221)	179	**(14.7%)**
Dividends paid to equity holders of Telstra Entity	**(3,474)**	(3,474)	-	**-**
Dividends paid to non-controlling interests	**(20)**	(43)	23	**(53.5%)**
Net cash used in financing activities	**(5,481)**	(3,933)	(1,548)	**39.4%**
Net increase/(decrease) in cash and cash equivalents	**744**	432	312	**72.2%**

Net cash provided by operating activities

Net cash from operating activities increased by $693 million or 7.7% mainly driven by lower income tax payments this fiscal year. This was due to a lower PAYG instalment rate and prior year income tax return refunds received.

Our net cash movements from operating activities excluding tax grew by 2.5% due to:

- A higher underlying EBITDA performance, excluding the impairment of goodwill in our CSL New World investment, driven by a significant reduction in operating expenses exceeding the decline in sales revenue. Additionally, careful management of our working capital balances provided positive cash improvements this year.

Full year results and operations review - June 2010

Offsetting this was:

- Higher cash contributions to the Telstra Superannuation Scheme with a full year of contributions amounting to $460 million compared with $260 million in the prior year where we recommenced making contributions part way through the year.

Net cash used in investing activities

The key driver of our improved free cashflow this year was a reduction in capital expenditure before investments, falling by $1,199 million or 25.0% as we moved to completion and maintenance of the major program of work. However we continue to invest in our network and other assets, with $3,595 million spent on capital works this fiscal year.

There was a $654 million decrease in spend on intangibles where IT business improvement spend shifted more to system enhancements to complete the remaining functionality on software such as our new billing systems rolled out in the prior years. Additionally, payments for property, plant and equipment reduced by $545 million as infrastructure installation programs such as new estates and site coverage deployment were lower this year following larger projects completed in fiscal 2009.

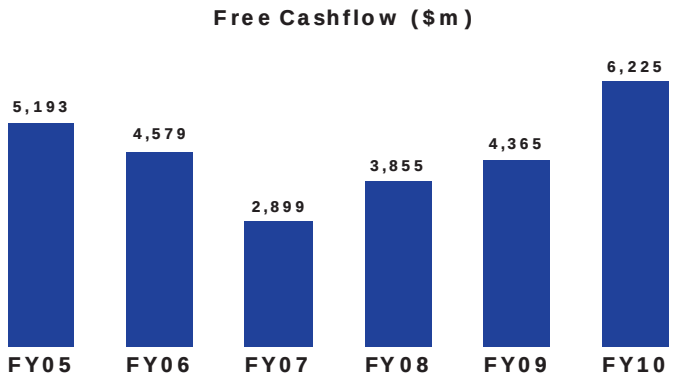
Investment spend in fiscal 2010 included a deferred consideration payment for the purchase of our Octave China investment and the 67% acquisition of Chinese company, Lmobile. Prior year investment spend included the acquisition payments for our Octave China and Sequel China entities.

We did not sell any significant businesses in fiscal 2010. Fiscal 2009 included proceeds received from the sale of the KAZ business for $197 million (net of cash disposed).

Net cash used in financing activities

This year's strong cashflow position and refinancing of long term debt issuance was used to reduce our net borrowings post the peak of the global economic crisis. During fiscal 2010, we repaid $954 million of net borrowings and finance lease repayments including $1,350 million of domestic bank loans and $1,298 million of Euro and other denominated offshore borrowings. These repayments more than offset new borrowings including a long term Euro borrowing of $1,499 million in the second half of the year.

Finance costs paid declined by $179 million or 14.7%, mainly due to the reduction in market base interest rates on our floating rate borrowings.



Corporate Governance Statement

Corporate Governance & Board Practices 2010

Your Board is committed to excellence in corporate governance and enhancing our shareholders' interests.

Good corporate governance is the hallmark of successful companies – it adds value to the Company through efficient oversight and risk management, while encouraging innovation and entrepreneurship within the Company.

As one of Australia's largest companies, with one of the largest diversified shareholder bases, your Board firmly believes that striving for excellence in corporate governance plays a major part in the Company's continuing success.

We continue to refine and improve our corporate governance systems. The Board evaluates and, where appropriate, implements relevant proposals with the aim of ensuring that we continue to demonstrate our commitment to good corporate governance, having regard to developments in market practice expectations and regulation.

We comply with the ASX Corporate Governance Principles and Recommendations (ASX Principles and Recommendations), and the disclosures set out in this statement reflect the current content of the Board and Board Committee Charters and company policies.

On 30 June 2010, the ASX Corporate Governance Council released amendments to the ASX Principles and Recommendations (Amended ASX Principles and Recommendations), in particular in relation to diversity. While the changes do not take effect until the first financial year beginning on or after 1 January 2011 (being the financial year commencing 1 July 2011 in our case), Telstra has already taken steps to early adopt key provisions of the Amended ASX Principles and Recommendations as outlined in this statement.

Further information regarding our corporate governance and Board practices, including copies of key policies and Charters, can be found on our website at www.telstra.com/abouttelstra/corp/governance/index.cfm.

Corporate Governance Statement

Corporate Citizenship

As a good corporate citizen, Telstra's responsibility is to manage our business ethically to produce an overall positive impact on our customers, employees, shareholders and other stakeholders, as well as the wider community and the natural environment.

Telstra's primary corporate responsibilities are to:

- Increase shareholder value and protect shareholder interests;
- Serve the needs of our customers;
- Make Telstra a great place to work;
- Provide good stewardship of the environment;
- Contribute resources - people, money, technology, products and services - to support the communities in which we operate; and
- Advance the national interest by strengthening the capability of the nation's telecommunications infrastructure, and thereby providing a strong foundation for economic growth, productivity improvement, sustainable prosperity, and global competitive advantage.

Governance of Telstra's corporate citizenship strategy and performance is provided by the Corporate Citizenship Council, comprising ten of Telstra's Group Managing Directors. Reports on progress are provided quarterly to the CEO and corporate citizenship is a standing item at Telstra Board meetings.

Telstra produces a comprehensive corporate citizenship report each year that can be found on our website at www.telstra.com.au/cr.

Shareholder Communications

Telstra works hard to keep you, our shareholders, informed about the performance of your Company. Telstra is committed to:

- Open, clear, accurate and timely communications with our shareholders about matters affecting the value of their investment in the Company;
- Making appropriate use of technology and emerging new media tools to inform and engage our shareholders; and
- Ensuring all communications are consistent with Telstra's continuous disclosure and other applicable legal obligations.

Telstra values a direct, two-way dialogue with shareholders and believes it is important not only to provide relevant information as quickly and efficiently as possible, but also to listen, understand shareholders' perspectives and respond to your feedback.

The specific initiatives Telstra has put in place to make that easier include:

- Maintaining an investor relations website;
- Writing directly to you, our shareholders, on issues that affect your investment;
- Placing all announcements made to the market, including transcripts of investor and media briefings and related information, on our website;
- Webcasting and podcasting important events such as briefings and the annual general meeting (AGM); and
- Using electronic communications to advise investors, who have provided their email address, of significant matters.

The Board of Directors

Role and responsibilities of the Board

Your Board is accountable to you, our shareholders, for overseeing the management and performance of Telstra, and is responsible for setting the Company's overall strategy and governance. The Board's role includes:

- Providing strategic direction to the Company by defining the corporate objective, approving the corporate strategy and performance objectives, monitoring developments and approving any variations;
- Approving the annual corporate plan and monitoring its implementation;
- Approving significant business decisions;
- Appointing, assessing the performance of, and determining the remuneration of the CEO;
- Overseeing the performance of the executives who report directly to the CEO and any other members of the management team the Remuneration Committee determines should be subject to its supervision, reviewing senior management succession and talent development plans, and reviewing senior management performance measures and remuneration arrangements;
- Approving Telstra's overall remuneration framework;
- Promoting diversity (including gender diversity) within all levels of the Company;
- Ensuring appropriate resources are available to senior management;
- Requiring appropriate compliance frameworks and controls to be in place and operating effectively;
- Monitoring the integrity of internal control and reporting systems and monitoring strategic risk management systems;
- Approving Telstra's statutory accounts and overseeing its financial position as well as internal and external audit activities;
- Approving decisions concerning Telstra's capital and determining the dividend policy;

Corporate Governance Statement

- Overseeing the review and update of corporate governance practices and procedures as necessary to support our commitment to best practice corporate governance in Australia;
- Monitoring and influencing Telstra's culture, reputation and ethical standards;
- Driving Board succession planning; and
- Overseeing shareholder reporting and communications.

Your Board has adopted a Charter that details its role and responsibilities. This Charter is available on our website.

Your Board has delegated responsibility for day-to-day management of the Company to the CEO and there is a formal delegations structure in place which sets out the powers delegated to the CEO and those specifically retained by the Board. A summary of the powers retained by the Board is set out in Appendix 1 of our Board Charter, a copy of which is available on our website. This is complemented by a formal delegation structure from the CEO to Telstra employees.

Board membership and size

Telstra's Constitution requires a minimum of 3 Directors. The maximum number of Directors is fixed by your Directors from time to time, but may not be more than 13 unless you, our shareholders, in a general meeting, resolve otherwise. The Company proposes to put a resolution to shareholders at the 2010 AGM to reduce the maximum number of Directors under the constitution from 13 to 12. Your Directors must not determine a maximum which is less than the number of Directors in office at the time the determination takes effect.

Your Directors may appoint an individual to be a Director, either as an addition to the existing Directors or to fill a casual vacancy up to the maximum number. Any new Director appointed by your Board during the year is required to stand for election at the next annual general meeting. Individuals may also nominate themselves (prior to the AGM and in accordance with the process outlined in the Constitution) for election as a Director at the AGM.

Any decision on the appointment of a new Director is made by your Board on the basis of advice received from the Nomination Committee.

The tenure of the CEO as a Director is linked to his or her executive office. Under Telstra's Constitution, no other Director may hold office for more than three years or beyond the third annual general meeting following their appointment (whichever is the later) without re-election. In accordance with the ASX Listing Rules, the Company must hold an election of Directors each year. If no Director would otherwise be required by Telstra's Constitution to submit for election or re-election, then the procedure in rule 23.4(b) of Telstra's Constitution must be followed.

A recommendation to re-elect a Director at the end of their term is not automatic. Prior to each AGM, your Board will determine if it will recommend to the shareholders that they vote in favour of the re-election of the Directors due to stand for re-election. This decision is made by your Board, having regard to the Directors' annual performance reviews and any other matters it considers relevant.

The Nomination Committee may negotiate the retirement or resignation of individual Directors after consultation with the Board.

Board composition

Your Board's policy is that the Board needs to have an appropriate mix of skills, experience, expertise and diversity (including gender diversity) to be well equipped to help the Company navigate the range of challenges that we face.

The skills, experience and expertise which the Board considers to be particularly relevant include those in the areas of finance, legal, telecommunications, information and technology, Government relations and Australian and international business.

In respect of diversity, the Board considers that diversity includes differences that relate to gender, age, ethnicity, disability, sexual orientation and cultural background. It also includes differences in background and life experience, communication styles, interpersonal skills, education, functional expertise and problem solving skills.

Your Board has an appropriate mix of relevant skills, experience, expertise and diversity. This enables it to discharge its responsibilities and deliver the corporate objective, as well as seek new ways of driving performance through innovation and entrepreneurship.

Since 1 July 2009, three new non-executive Directors have been appointed to the Telstra Board:

- Russell Higgins – appointed to the Board effective 15 September 2009 and endorsed by shareholders at the 2009 AGM. Mr Higgins has extensive experience in regulated utility sectors and has worked at very senior levels of both government and private sectors;
- Steve Vamos – appointed to the Board effective 15 September 2009 and endorsed by shareholders at the 2009 AGM. Mr Vamos is a 30 year veteran of the information technology industry with significant experience in internet and online media; and
- Nora Scheinkestel – appointed to the Board effective 12 August 2010 and subject to shareholder approval at Telstra's 2010 AGM to be held on 19 November 2010. Dr Scheinkestel has significant expertise in the financial sector, as well as broad experience as a director of large Australian companies operating in increasingly competitive markets.

Corporate Governance Statement

In respect of two of these appointments, the Board undertook a formal selection process and engaged an executive search firm to assist in the process. In all cases, the Board established criteria regarding the general qualifications and experience of a candidate to serve on the Board of a major public company like Telstra. In addition, it set criteria regarding the specific qualifications a candidate should possess to ensure the Board maintained the appropriate mix of skills, experience, expertise and diversity. The Board also undertook an assessment of whether a candidate satisfied the requirements of the Board's Charter.

All new Directors participate in a formal induction process co-ordinated by the Company Secretary. This induction process includes briefings on the Company's financial, strategic, operational and risk management position, the Company's governance framework and key developments in the Company and the industry and environment in which it operates.

Telstra also has in place a continuing education program for Directors which is included in the annual Board cycle.

Formal letters of appointment are provided to all new Directors setting out the key terms and conditions of their appointment.

A brief biography for each Director setting out their experience, expertise and membership of Telstra Board Committees, together with details of the year of initial appointment and re-election (where applicable), is included in the Directors' Report.

Role of the Chairman

The Chairman must be an independent Director and is appointed by your Board. Telstra's Chairman, Catherine Livingstone, is an independent non-executive Director. She has been a Director of Telstra since 2000 and was elected Chairman in 2009.

The Chairman's principal responsibilities are to ensure that the Board fulfils its obligations under the Board Charter and as required under relevant legislation and to provide appropriate leadership to your Board and Telstra. The Chairman's specific responsibilities include:

- Representing the views of your Board to all shareholders and maintaining appropriate ongoing contact with major shareholders to ensure your Board understands their views;
- Establishing the timetable and working with the CEO and Company Secretary to agree the agenda for Board meetings;
- Chairing Board meetings, non-executive Directors' meetings and shareholder meetings;
- Facilitating Board and non-executive Directors' meetings to ensure:
    - The discussions are conducted in an open and professional manner where Directors are encouraged to express their views, leading to objective, robust analysis and debate; and
    - The core issues facing Telstra are addressed;
- Working with the CEO to ensure the CEO provides the Board with the information it requires to contribute effectively to the Board decision making process and to monitor the effective implementation of Board decisions;
- Maintaining a regular dialogue and mentoring relationship with the CEO and senior management, serving as the primary link between your Board and management and providing continuity between Board meetings;
- Guiding and promoting the on-going effectiveness and development of your Board and individual Directors; and
- Ensuring the meetings of shareholders are conducted in an open and proper manner with appropriate opportunity to ask questions.

Director Independence

Your Board recognises the important contribution independent Directors make to good corporate governance.

All Directors, whether independent or not, are required to act in the best interests of the Company and to exercise unfettered and independent judgment.

Your Board's current policy is that the CEO and the Chief Financial Officer (CFO) are the only executive Directors and that the non-executive Directors should also be independent Directors, as defined in the Board Charter. With the exception of the CEO and CFO, all Directors are non-executive Directors and have been determined by your Board to be independent.

The Board, at least annually, assesses the independence of each non-executive Director, having regard to the specific considerations set out in the Board Charter. These considerations are consistent with those set out in the ASX Principles and Recommendations.

In our view, consistent with the ASX Principles and Recommendations, independent Directors must not be members of management and must be free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Director's unfettered and independent judgment and ability to act in the best interests of the Company. Materiality is assessed on a case-by-case basis from the perspective of both Telstra and the relevant Director and consideration is given to both qualitative and quantitative factors.

Your Board's Charter provides that if at any time during the year a Director ceases or may have ceased to be independent, he/she is required to advise the Chairman immediately. Where the Board determines a Director is no longer independent, an announcement will be made to the market.

Corporate Governance Statement

During fiscal 2010, no non-executive Director had any relationship that could materially interfere, or be perceived to materially interfere with his or her unfettered and independent judgement.

Board Meetings

Your Board meets to discuss strategic matters, business performance oversight, senior executive appointments, performance and remuneration, financial matters, risk management, compliance, and relationships with stakeholders. It has scheduled meetings and meets on other occasions to deal with specific matters that need attention as required. Your Board liaises with senior management outside Board meetings where appropriate, and may consult with other Telstra employees and advisers and seek additional information.

Details of the number of meetings held by your Board during fiscal 2010 and attendance by Board members are set out in the Directors' Report.

The Board and the Company Secretary

The Company Secretary plays an important role in supporting the effectiveness of the Board by monitoring that Board policy and procedures are followed, and co-ordinating the completion and despatch of Board agendas and materials in a timely manner. All Directors have access to the Company Secretary. Effective 1 July 2009, the reporting relationship of the Company Secretary was changed so that the role reports directly to the Board through the Chairman.

Board access to management and independent professional advice

Directors have complete access to senior management through the Chairman, CEO or Company Secretary at any time. In addition to regular presentations by senior management to the Board and Board Committee meetings, Directors may seek briefings from senior management on specific matters.

Your Board has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at Telstra's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties. All Committees of the Board have access to independent professional advice on the same basis.

In addition, each Director has the right to seek independent professional advice at Telstra's expense, subject to the prior approval of the Chairman.

Performance Evaluation

Your Board annually reviews its performance (including its performance against the requirements of its Charter), the performance of individual Committees and the performance of individual Directors.

In fiscal 2010, the Board performance review was facilitated by an external consultant. The process comprised a number of elements, including:

- Document review (such as Board agendas and Charters);
- A Board performance questionnaire/survey of Directors and senior management;
- An in-depth structured interview with each Director and key members of senior management in relation to Board, Committee, Chairman and individual Director performance;
- Overall Board performance feedback;
- A separate consideration by the Board of the performance review findings in relation to the Chairman, in the absence of the Chairman, with feedback provided to the Chairman in the presence of non-executive Directors; and
- Individual feedback to Directors relating to their performance from the external consultant, with a follow up meeting with the Chairman.

The external consultant provided a comprehensive report and the report (including its findings and recommendations) was presented to the August 2010 Board meeting.

As noted above, your Board makes recommendations to you, the shareholders, regarding the re-election of Directors having regard to the outcome of these reviews.

Declaration of interests

Directors are required to take all reasonable steps to avoid actual, potential or perceived conflicts of interest and to be sensitive to situations in which these may arise. This is a matter for ongoing consideration in view of the dynamic and rapidly changing nature of Telstra's business.

The Corporations Act, Telstra's Constitution and the Board Charter require the Directors to disclose any conflicts of interest and in certain circumstances to abstain from participating in any discussion or voting on matters in which they have a material personal interest.

If a Director believes that he or she may have a conflict of interest or material personal interest in a matter, the Director is required to disclose the matter in accordance with the requirements of the Corporations Act and the Constitution, and must follow the procedures set out in the Board Charter to deal with such circumstances.

Board Committees

Five standing Committees assist our Board:

- Audit Committee;
- Nomination Committee;
- Remuneration Committee;
- Technology Committee; and

Corporate Governance Statement

- NBN (National Broadband Network) Committee.

The members of each Committee, their qualifications and their attendance of Committee meetings during the year are set out in the Directors' Report. Following each Committee meeting, your Board receives a report from that Committee on its activities.

Each Committee operates in accordance with a written Charter approved by your Board. Your Board appoints the members and the Chairman of each Committee. With the exception of the Technology Committee and the NBN Committee, it is a Board requirement that only independent Directors can serve on Board Committees.

The role, function, Charter, performance and membership of each Committee are reviewed each year as part of your Board's annual evaluation process.

Audit Committee

Role and responsibilities of the Audit Committee

The Audit Committee:

- Assists your Board in discharging its responsibilities by monitoring and advising on:
  - Financial reporting including:
    - The integrity, truth and fairness of the view given by Telstra's financial statements;
    - The integrity of Telstra's financial systems and processes; and
    - The appropriateness of Telstra's accounting policies and practices and consistency with current and emerging accounting standards;
    - Telstra's overall risk management process and the management of specific risk areas as directed by your Board (refer to the section entitled "Risk Oversight and Management" below for further information);
    - The effectiveness and operation of Telstra's Financial Reporting Compliance Framework;
    - The effectiveness and operation of our internal control environment;
    - Compliance with legal and regulatory requirements and Company policies;
    - The external audit including the external auditors' qualifications, scope, independence and performance, and the policy regarding the performance of non-audit services by the external auditor;
    - The non-audit services disclosures to be made in the annual report including the reasons for being satisfied that the auditors' independence was not compromised by the provision of these services;
    - The objectivity and performance of the internal audit function; and
    - The structure and operation of our corporate governance framework and related disclosures;
  - Provides a forum for communication between your Board, management and both the internal and external auditors; and
  - Provides a conduit to your Board for external advice on audit, risk management and compliance matters.

During the 2010 fiscal year, the Audit Committee comprehensively addressed its responsibilities under its Charter, which is available on our website.

Composition and membership of the Audit Committee

The Audit Committee is comprised of at least three Board members, all of whom must be independent non-executive Directors. Each member is expected to:

- Be financially literate (be able to read and understand financial statements) and have sufficient financial knowledge to allow them to discharge their duties and actively challenge information presented by management, internal and external auditors;
- Have a reasonable knowledge of Telstra, the industries in which it operates and its risks and controls; and
- Have the capacity to devote the required time and attention to prepare for and attend Committee meetings.

At least one member of the Audit Committee should have relevant qualifications and experience (that is, they should be a qualified accountant or other finance professional with experience of financial and accounting matters).

In addition, the Chairman of the Audit Committee must not be the Chairman of the Board and no Director may serve as a member of the Audit Committee if that Director serves on the Audit Committee of more than two other public companies.

Meetings of the Audit Committee

Audit Committee meetings are held on a regular basis, as determined annually in advance by your Board, and scheduled to correspond with our financial reporting cycle. Special meetings may be convened as required.

Other members of your Board can attend Audit Committee meetings and the Audit Committee may ask management, the external auditors and others to attend meetings and provide any required advice.

The Audit Committee regularly meets with the internal auditor and the external auditors in the absence of management.

Corporate Governance Statement

Relationship with external auditor

The Audit Committee oversees the relationship with the external auditors including:

- Reviewing and agreeing on the terms of engagement for the external auditors prior to the commencement of each annual audit of the financial statements;
- Reviewing the external auditors' proposed audit scope and audit approach, including materiality levels, for the current year in the light of Telstra's circumstances and changes in regulatory and other requirements; and
- Approving the provision of recurring audit services as part of the annual approval of the audit plan.

The Audit Committee provided an annual, formal, written report detailing the nature and amount of any non-audit services rendered by Ernst & Young during the most recent fiscal year and an explanation of how the provision of those non-audit services are compatible with auditor independence. Details of amounts paid or payable to the auditor for non-audit services provided during the year are disclosed in Note 8 to the financial statements.

Telstra shareholders appointed Ernst & Young as the Company's external auditor at the 2007 AGM following the resignation of the Australian National Audit Office at the conclusion of T3. The Board, on recommendation of the Audit Committee, extended Ernst & Young's tenure as external auditor to the 2010 financial year. The Audit Committee offered the external audit to tender during fiscal 2010 and, following this process, the Board (on recommendation of the Audit Committee) reappointed Ernst & Young as the Company's external auditor until the end of the 2015 fiscal year.

In accordance with the requirements of the Corporations Act, at the completion of a five year term, the lead Ernst & Young audit partner rotated upon the signing of the audit opinion for the 2007 fiscal year.

The external auditors attend the AGM and are available to answer your shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Nomination Committee

Role and responsibilities of the Nomination Committee

The Nomination Committee monitors and advises on:

- Board composition and performance (including Board diversity);
- Director independence; and
- Appointment of the CEO and CEO succession planning.

During the 2010 fiscal year, the Nomination Committee comprehensively addressed its responsibilities under its Charter, which is available on our website.

Composition and membership of the Nomination Committee

It is your Board's policy that the Nomination Committee is comprised of at least three independent Directors including the Chairman of the Board. Each member is expected to:

- Have a reasonable knowledge of Telstra and the industries in which it operates; and
- Have the capacity to devote the required time and attention to prepare for and attend Committee meetings.

Meetings of the Nomination Committee

Nomination Committee meetings are held on a regular basis, as determined annually in advance by the Board. Special meetings may be convened as required.

Other members of the Board can attend Nomination Committee meetings and the Committee can invite others, including any Telstra employees, to attend all or part of its meetings as it deems necessary or appropriate. However, if a person has a material personal interest in a matter that is being considered at a meeting, they must not be present for consideration of that matter.

The Board's policy and procedure for the selection, nomination and appointment of Directors is discussed in more detail in the sections above entitled "Board membership and size" and "Board composition".

Remuneration Committee

Role and responsibilities of the Remuneration Committee

The Remuneration Committee monitors and advises on:

- Board remuneration;
- CEO and Company Secretary performance and remuneration;
- The performance and remuneration of the executives who report directly to the CEO and any other members of the management team the Remuneration Committee determines should be subject to its supervision;
- Remuneration strategies, practices and disclosures;
- Employee share and option plans;
- Management succession, capability and talent development;
- Diversity (at all levels of the Company below Board level); and
- Occupational health and safety (excluding those aspects which the Audit Committee has responsibility for under the Audit Committee Charter, in particular in relation to the compliance and risk management).

The Committee also exercises the administrative powers delegated to it by your Board under Telstra's

Corporate Governance Statement

share option plans and, in certain circumstances, makes offers to employees under those plans.

During the 2010 fiscal year, the Remuneration Committee comprehensively addressed its responsibilities under its Charter, which is available on our website.

Composition and membership of the Remuneration Committee

The Remuneration Committee is comprised of at least three Board members including the Chairman of the Board, all of whom must be independent non-executive Directors. Each member is expected to:

- Be familiar with the legal and regulatory disclosure requirements in relation to remuneration;
- Have adequate knowledge of executive remuneration issues, including executive retention and termination policies, and short term and long term incentive arrangements;
- Have a reasonable knowledge of Telstra and the industries in which it operates; and
- Have the capacity to devote the required time and attention to prepare for and attend Committee meetings.

Our Remuneration Committee structure complies with the Amended ASX Principles and Recommendations.

Meetings of the Remuneration Committee

Remuneration Committee meetings are held on a regular basis as determined annually in advance by your Board and scheduled to correspond with our remuneration review and reporting cycle. Special meetings may be convened as required.

Other members of your Board can attend Remuneration Committee meetings and the Remuneration Committee may invite other people including any Telstra employees to attend all or part of its meetings, as it deems necessary or appropriate. However, if a person has a material personal interest in a matter that is being considered at a meeting, he/she must not be present for consideration of that matter.

Our Remuneration Framework

Information in relation to Telstra's remuneration framework (including information regarding the remuneration strategy and policies and their relationship to Company performance), can be found in the Remuneration Report which forms part of the Directors' Report, together with details of the remuneration paid to:

- Board members; and
- Senior executives who were the key management personnel of the Company during fiscal 2010.

The Remuneration Committee obtains external advice from independent remuneration consultants in determining Telstra's remuneration practices where considered appropriate.

Each year, your Board reviews the CEO's performance against agreed measures, broader expectations and other relevant factors. The CEO undertakes a similar exercise in relation to senior management. The results of the CEO's annual performance review of senior management are considered by your Board. The process for evaluating the performance of the CEO and senior executives is discussed in greater detail in our Remuneration Report (particularly in the context of determining levels of compensation and awards). In fiscal 2010, the performance of the CEO and key management personnel was reviewed in the manner set out in our Remuneration Report.

In terms of the remuneration structure of the Company Secretary, effective 1 July 2009, the at-risk component of the Company Secretary's remuneration that was based on corporate performance measures was transitioned to measurements based on performance specific to the role to ensure the position operates independently of company financial performance measures.

Similarly, as part of a range of measures to reinforce the professional independence of the internal legal function, Telstra elected to exclude its senior internal legal counsel from equity based long term incentive (LTI) plans and short term incentive (STI) plans based on corporate financial measures. Instead, they have been placed in alternative cash based LTI and STI plans that are based on internal legal performance measures to ensure their remuneration package is independent of company financial performance measures. In fiscal 2010, there were 13 senior legal counsel positions, including the Group General Counsel, who participated in the cash based LTI and STI plans.

Technology Committee

The Technology Committee allows the Board to review technology developments which may be relevant to Telstra's business in greater detail than is possible at Board meetings. The Committee regularly reviews product development activities including proposed new technology products and timelines to market. The Committee's primary purpose is educative.

During the 2010 fiscal year, the Technology Committee comprehensively addressed its responsibilities under its Charter, which is available on our website.

NBN Committee

The NBN Committee was established during fiscal 2009. The role of the NBN Committee is to assist the Board in discharging its responsibilities by monitoring and advising on the formulation and implementation of the Company's strategy in relation to the Federal Government's NBN policy initiative and the associated

Corporate Governance Statement

regulatory issues, and other matters arising from, or in connection with, the NBN.

Risk Oversight and Management

Management of opportunities and risks

Telstra faces a variety of risks due to the complexity of its business and the dynamic business environment in which we operate. The effective management of risks enables Telstra to achieve its objectives, create value for our shareholders, satisfy our customers, and protect our staff, our assets, the community, and the natural environment. Telstra's commitment is to manage those risks that arise in the course of Telstra's business to an acceptable level, so as to maximise opportunities and minimise negative outcomes. Recognising this, Telstra has established a formal and robust approach for assessing, treating and monitoring risks related to the successful pursuit of its business objectives.

This approach is supported by Telstra's Risk Management Framework which includes the Telstra Risk Management Policy, and Risk Management Methodology and Tools. The Framework aligns with ISO 31000 Risk Management – Principles and Guidelines, the global standard for risk management, and is also supported by Telstra's Business Principles and a number of other policies that directly or indirectly seek to manage risks.

Risk management roles and responsibilities

Risk management occurs at all levels of the Company. Telstra management and staff have primary responsibility and accountability for the proactive identification, ownership and management of risks. Management are responsible for ensuring that they have appropriate resources and expertise available to detect, prevent and respond to risks and to provide comprehensive, timely and reliable risk information to key stakeholders.

In addition, Telstra has groups which manage and report in specialised areas such as Compliance, Climate Change, Treasury, Insurance, Credit, and Regulatory risks.

Your Board monitors the integrity of the internal control and reporting systems, the strategic risk management systems, and the processes for managing Telstra's strategic risks. In addition, the Board has established a program for its review and oversight of Telstra's strategic risks.

The Audit Committee monitors and advises on Telstra's risk management process and the management of specific risk areas as directed by the Board, in particular in relation to financial, operational and compliance risks.

Telstra's Risk Management and Assurance group supports management, the Audit Committee and the Board by working with the business to facilitate risk assessments in key areas and by providing independent assurance that the internal control and risk management system, environment and processes are operating effectively.

For the financial year ended 30 June 2010, the CEO and CFO have provided the Board with the certifications required by the Corporations Act and the ASX Principles and Recommendations. Specifically, your Board has received:

- Reports from management as to the effectiveness of the Company's management of its material business risks;
- The declaration from the CEO and CFO required in accordance with section 295A of the Corporations Act that the Company's financial reports for the year ended 30 June 2010 presented a true and fair view of the Company's financial position and performance and were in accordance with relevant accounting standards; and
- Assurance from the CEO and CFO that the section 295A declaration was founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Telstra Values, Telstra Business Principles, Code of Conduct and other Company policies

We have a number of internal operating policies and principles which promote ethical and responsible decision making and behaviour.

We provide guidance to our Directors, senior management and employees on the standards of ethical business and personal behaviour required of all of our officers and employees in performing their daily business activities through the Telstra Values, the Telstra Business Principles and our Company policies, including our Code of Conduct. A mandatory training program for all employees is in place to reinforce these standards.

Our Values, the Telstra Business Principles and our Code of Conduct are available on our website.

Whistleblower policy and service

We have a whistleblower policy and a confidential whistleblower service which provides our staff with an avenue to raise concerns they might have with behaviour that is potentially illegal, improper or unethical. The whistleblowing process is supported by an independent service provider who specialises in receiving sensitive reports or disclosures. All reports or disclosures are treated as confidential and reports can be made anonymously. Reports are referred to our Ethics Committee which is made up of senior managers and oversees the investigation of these matters and the implementation of any recommendations considered appropriate.

The Audit Committee oversees the whistleblowing program, receives regular reports from the Ethics Committee, and provides an escalation channel for the Ethics Committee where required. Our whistleblowing

Corporate Governance Statement

policy reflects the Telstra values of accountability, integrity and leadership, supports our Code of Conduct and complements existing management structures and functions.

Share Trading

Telstra's share trading policy restricts the buying or selling of Telstra securities by Directors, the CEO, senior management and certain other designated employees to three "window" periods (between 24 hours and one month following the release of the annual results, the release of the half-yearly results and the close of the AGM) and at such other times as the Board permits. Trading during these window periods is subject to the overriding requirement that buying or selling of Telstra securities is not permitted at any time by any person who possesses price-sensitive information which is not generally available in relation to those securities.

In addition, Directors, the CEO, senior management and relevant employees must notify the Company Secretary before they or their close relatives buy or sell our securities. Changes to the interests of Directors in our securities are, as required by law, notified to the ASX.

The policy also prohibits Directors, senior management and other designated people from using Telstra shares as collateral in any financial transaction (including margin loan arrangements) and from engaging in any stock lending arrangements in relation to Telstra shares.

Further, Directors, the CEO, senior management and relevant employees are prohibited from entering into arrangements which effectively operate to limit the economic risk of their security holdings in Telstra allocated under our incentive plans during the period the shares are held in trust on their behalf by the trustee or prior to the exercise of any security.

Telstra is currently reviewing its share trading policy following the recent release by the ASX of its amendments to the ASX Listing Rules and associated guidance note which require the adoption and disclosure of a company trading policy. These amendments to the ASX Listing Rules come into effect on 1 January 2011.

Market disclosure

Telstra has established procedures intended to ensure that it complies with its market disclosure obligations. In particular, a comprehensive continuous disclosure procedure is in place and is reviewed and updated on a regular basis. The aim of this procedure is to ensure that price-sensitive information is released in a timely fashion to the various stock exchanges on which Telstra's shares and debt securities are listed.

The continuous disclosure procedure provides that:

- Board approval and input is required in respect of announcements that relate to matters that are within the reserved powers of the Board (and responsibility for which has not been delegated to management) or matters that are otherwise of fundamental significance to Telstra;
- Where Board approval and input cannot be obtained due to the requirement for immediate disclosure to the market to ensure compliance with the continuous disclosure laws, the CEO and CFO may authorise disclosure prior to Board approval and input;
- The CEO and CFO are responsible for determining whether a proposed announcement is required to be considered and approved by the Board;
- Ultimate management responsibility for continuous disclosure rests with the CEO and the CFO;
- The responsibilities of the Continuous Disclosure Committee (the Committee), which is chaired by the Company Secretary, include:
  - Ensuring there is an adequate system in place for the disclosure of all material information to the ASX; and
  - Advising the CEO and the CFO in relation to the disclosure of information reported to the Committee;
- The Committee's membership includes the Company Secretary, the Executive Director - Communications, the General Counsel - Finance and Administration, the Deputy CFO and the Director - Investor Relations or their delegates;
- Senior management, including Group Managing Directors (other than the CFO) and their direct reports, all Group Financial Controllers and certain legal and regulatory counsel must immediately inform the Committee of any potentially price-sensitive information or proposal as soon as they become aware of it;
- Where material information has originated in the office of the CEO or the CFO or has been reported directly to them, the CEO or CFO may, at their discretion, seek the advice of, or a recommendation from, the Committee in deciding whether to make or approve an ASX announcement in relation to that material information;
- If the matter is disclosable, an announcement is prepared and immediately sent via the Company Secretary's office electronically to all relevant stock exchanges.

Telstra has implemented several practices internally to keep the Committee informed about potentially disclosable matters and to reinforce the importance of its continuous disclosure obligations. These practices are reviewed regularly and include:

- Every Director is made aware of our continuous disclosure obligations upon taking office and each member of senior management undertakes training with the General Counsel - Finance and

Corporate Governance Statement

Administration or delegate, in relation to our continuous disclosure obligations;

- The Committee maintains a list of issues which, although not yet disclosable, are monitored in case they become disclosable;
- All proposed media releases and external speeches and presentations to be made by senior management are reviewed by internal legal counsel to determine whether they should be disclosed;
- A specific information paper is prepared for each Board meeting summarising ASX announcements and details of significant matters considered by the Committee but judged not to be disclosable; and
- The Company Secretary maintains a record of all market announcements. The announcements are also posted on our website after market release is confirmed.

Telstra's Investor Relations Communication Policy governs communications and the provision of information to shareholders, brokers and analysts. The aim of this policy is to ensure that we provide investors and the financial community with appropriate and timely information whilst at the same time ensuring that Telstra fulfils its statutory reporting obligations under the Corporations Act and the ASX Listing Rules.

Telstra provides advance notification of significant group briefings, such as our results announcements, and we make them widely accessible through the use of webcasting. We also keep a summary record for internal use of the issues discussed at group or one-on-one briefings with investors and analysts.

Legal and Regulatory Compliance

Telstra is committed to conducting its business in compliance with its legal and regulatory obligations. Compliance with these obligations is not just a legal requirement but is integral to the Company's commitment to its employees, customers, shareholders and the community.

Your Board and the senior management team are committed to ensuring there is an appropriate compliance framework and complementary controls in place to provide an appropriate level of confidence that the Company is operating in compliance with relevant laws, regulations and industry codes. This is achieved through the Compliance & Corporate Ethics Framework (C&CEF). Your Board has given the Audit Committee specific responsibility for reviewing Telstra's approach to achieving compliance with laws, regulations and associated industry codes in Australia and overseas and for the general oversight of compliance issues. This oversight is facilitated by the preparation of a regular and comprehensive compliance report highlighting aspects of the C&CEF and summarising our compliance initiatives and issues.

The C&CEF brings together Telstra's business units and the individual subject matter specific compliance programs in an integrated, consistent and collaborative way.

Telstra maintains a comprehensive program-based approach to compliance, which is a key element of the C&CEF. Subject matter experts work with the business to help understand the many legal and regulatory obligations and responsibilities faced by the Company and translate them into appropriate practice. There are currently 15 programs under the C&CEF, including health and safety, environment, privacy, trade practices, diversity, disability, fraud, industry regulation, information security, operational separation, financial reporting, records management, whistle-blowing, Telstra Business Principles and Company Policies and continuous disclosure.

This program-based approach at a corporate level is supported by a network of senior personnel appointed to the role of Business Unit Compliance Manager. They are, in turn, supported by other personnel at the business unit level with specific responsibility for the implementation of the compliance programs within their business unit. This structure has been designed with the aim of ensuring that each business unit operates in accordance with the Company's obligations in an efficient, effective and integrated manner that reflects that business unit's compliance risk profile.

Political and Other Donations

Telstra does not make political donations. However, in line with other major publicly listed companies, we do pay fees to attend events organised by political parties where those events allow for discussion on major policy issues with key opinion leaders and policy makers.

We make donations and contribute funds to community and other organisations as part of our approach to corporate citizenship. Further discussion of your Company's corporate citizenship is provided above in the section entitled "Corporate Citizenship".

Diversity and Inclusion at Telstra

At Telstra, diversity includes differences that relate to gender, age, ethnicity, disability, sexual orientation and cultural background. It also includes differences in background and life experience, communication styles, interpersonal skills, education, functional expertise and problem solving skills.

Having a diverse range of employees better enables us to provide the best in service to our customers. It enables us to foster greater innovation, stronger problem solving capability, greater customer connection, increased morale, motivation and engagement.

Corporate Governance Statement

Diversity and inclusion at Telstra are business imperatives. Our approach is based on three strategic pillars:

- Our customers – to leverage diversity as a business driver;
- Our communities – to be a leader in diversity and inclusion in the broader community;
- Our people – to attract, recruit, engage and retain diverse talent, and embed inclusive practices within each part of our employee life-cycle.

Our diversity and inclusion framework has five core principles – meritocracy, fairness and equality, contribution to commercial success, that it's everyone's business, and that, at Telstra, it's a part of who we are.

Diversity and inclusion at Telstra is led by Telstra's Diversity Council, which is chaired by the CEO and has been in place since 2006.

On 30 June 2010, the ASX Corporate Governance Council released amendments to the ASX Corporate Governance Principles and Recommendations, in particular in relation to diversity. While the changes do not take effect until the first financial year beginning on or after 1 January 2011 (in Telstra's case the financial year commencing 1 July 2011), Telstra has already taken steps to adopt key provisions of the amended ASX Principles and Recommendations.

These steps include:

- Responsibility for diversity has been included in the Board Charter, the Nomination Committee Charter (Board diversity) and the Remuneration Committee Charter (diversity at all levels of the Company below Board level);
- The Board has formally adopted policies in relation to diversity at Board level and at all levels below the Board, reflecting the principles and practices Telstra has had in place for a number of years – this provides the framework for measurable objectives to be set by the Board; and
- The Board will establish measurable objectives for achieving diversity at all levels of the Company and will report on those in its 2011 Annual Report.

Telstra already has in place a range of initiatives to achieve diversity and inclusion, including in the areas of gender diversity, flexible work practices, Indigenous, disability, sexual orientation and gender identity.

Gender diversity

At Telstra, it is critical that gender is not a barrier to participation. Our approach to gender diversity is to involve both women and men in creating an inclusive environment. The achievements of Telstra Corporation Limited in fiscal 2010 include:

- 300 Telstra women participated in My Mentor, a 10 week multimedia program that aims to improve strategic business skills, with modules covering personal branding, taking risks, career planning, increasing visibility and profile, influencing and negotiation, and integrating work and life;
- Telstra continued to support our women participating in women's development events and programs, and partnered with organisations such as Catalyst, Serious Women's Business, Chief Executive Women and Females in Information Technology and Telecommunications;
- 442 Telstra men participated in the My Mentor for Men program, which coaches our male leaders to create inclusive workplaces, support gender diversity and encourage women to achieve their best. Since the program started in November 2008, 95.5 per cent of our male executive population and 61.5 per cent of our male band 1 population have participated;
- Telstra men, including our CEO, signed on as ambassadors and supporters of the White Ribbon Foundation campaign to eliminate violence against women;
- We maintained Telstra's Virtual Women's Network, which now has almost 2,000 members across the Company, providing a community in which women can share information, meet potential mentors and seek practical advice;
- The *Pulse Survey* (28 per cent of employees) revealed a 2 per cent increase from 2008 in the engagement of Telstra women; and
- We were awarded the prestigious *Catalyst Award* for our Next Generation Gender Diversity program, the first Australian company to win this coveted award.

Women in management roles at Telstra – as at 30 June 2010*

Role	By Number	By Percentage
Executive Management	65	22.4%
Middle Management	2,120	27.6%
Operational	8,437	32.5%
TOTAL	10,622	31.3%

* Includes full time and part time staff paid by Telstra Corporation Limited and Sensis Pty Ltd only and excludes casual staff, all other controlled entity-paid staff and agency staff.

Work-life flexibility

Telstra's approach to flexible work practices exceeds legislative requirements, and is underpinned by progressive leave policies including parental leave, personal (including carer's) leave, cultural leave and the ability to purchase additional leave. Our approach enables our people to maintain a healthy balance between work and other activities and interests.

Corporate Governance Statement

In fiscal 2010, we updated Telstra's flexible work policies, requiring managers to consider all requests for flexible work, respond within a specified period and provide written advice of a refusal with clear reasons. Telstra's policy states that we will support flexible working arrangements unless the manager can show that a significant negative business impact will result from the arrangement. These amendments have been extended beyond the minimum requirements of the National Employment Standards to include all types of requests for flexible work arrangements.

Further information regarding diversity and inclusion at Telstra, in particular in relation to our initiatives to manage diversity and promote inclusion in the areas of Indigenous, disability, sexual orientation and gender identity, can be found in our Corporate Citizenship Report which is available on our website www.telstra.com.au/cr.

Compliance with the ASX Principles and Recommendations

The table below is provided to facilitate your understanding of Telstra's compliance with the ASX Principles and Recommendations.

Recommendation		Please refer to the following sections of the Corporate Governance Statement
Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	✓	See "Role and Responsibilities of the Board". See also the Board Charter including Appendix 1 which is available on our website.
Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.	✓	See the Remuneration Report (in particular, page 62) which forms part of the Directors' Report.
Recommendation 2.1: A majority of the board should be independent directors.	✓	See "Director Independence".
Recommendation 2.2: The chair should be an independent director.	✓	See "Role of the Chairman".
Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.	✓	See "Role of the Chairman".
Recommendation 2.4: The board should establish a nomination committee.	✓	See "Nomination Committee". See also the Nomination Committee Charter which is available on our website.
Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	✓	See "Performance Evaluation".
Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to: • The practices necessary to maintain confidence in the company's integrity; • The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	✓	See "Telstra Values, Telstra Business Principles, Code of Conduct and Other Company Policies". See also the Telstra Business Principles and Code of Conduct which are available on our website.
Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	✓	See "Share Trading".
Recommendation 4.1: The board should establish an audit committee.	✓	See "Audit Committee".

Corporate Governance Statement

Recommendation		Please refer to the following sections of the Corporate Governance Statement
Recommendation 4.2: The audit committee should be structured so that it: • Consists only of non-executive directors; • Consists of a majority of independent directors; • Is chaired by an independent chair, who is not chair of the board; and • Has at least three members.	✓	See "Audit Committee".
Recommendation 4.3: The audit committee should have a formal charter.	✓	See "Audit Committee". See also the Audit Committee Charter which is available on our website.
Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	✓	See "Market Disclosure". See "Telstra Values, Telstra Business Principles, Code of Conduct and Other Company Policies".
Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	✓	See "Shareholder Communications". See "Telstra Values, Telstra Business Principles, Code of Conduct and Other Company Policies".
Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	✓	See "Risk Oversight & Management". See also the Telstra Business Principles which are available on our website.
Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	✓	See "Risk Oversight & Management".
Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	✓	See "Risk Oversight & Management".
Recommendation 8.1: The board should establish a remuneration committee.	✓	See "Remuneration Committee". See also the Remuneration Committee Charter which is available on our website.
Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	✓	See the Remuneration Report (in particular page 68) which forms part of the Directors' Report.

Shareholder Information

Listing Information

Markets in which our shares are traded

We are listed, and all our issued shares are quoted on the Australian Securities Exchange (**ASX**) and the New Zealand Stock Exchange (**NZX**).

Our securities were initially listed on 17 November 1997. This followed the sale by the Commonwealth of 33.3% of its shares in the Company. Subsequently on 18 October 1999, the Commonwealth sold an additional 16.6% of the shares in the Company. On 20 November 2006 under the Telstra 3 Share Offer, the Commonwealth sold a further 31.1% of its shares in the Company and transferred the remaining 17.1% to the Future Fund.

Under the terms of the Telstra 3 Share Offer, Telstra shares transferred to the Future Fund were held in escrow until 20 November 2008. In August 2009, the Future Fund sold down a parcel of 684,369,089 shares by block trade facility.

Markets on which our debt securities are listed

We also have debt securities listed on the ASX, the London Stock Exchange and the Swiss Stock Exchange.

Distribution of securities and security holdings

The following table shows the number of listed shares on issue at 3 September 2010:

Title of class	Identity of person or group	Amount owned	%
Listed Shares	Listed shareholders	12,443,074,357	100.00

Distribution of shares

The following table summaries the distribution of our listed shares as at 3 September 2010:

Size of Holding	Number of Shareholders	%	Number of Shares	%
1-1,000	697,546	49.23%	403,857,760	3.25%
1,001-2,000	256,824	18.12%	373,686,163	3.00%
2,001-5,000	270,390	19.08%	863,511,414	6.94%
5,001-10,000	113,394	8.00%	790,686,468	6.35%
10,001-100,000	76,033	5.37%	1,726,790,805	13.88%
100,001 and over	2,804	0.20%	8,284,541,747	66.58%
Total	**1,416,991**	**100.00%**	**12,443,074,357**	**100.00%**

The number of shareholders holding less than a marketable parcel of shares was 38,743 holding 4,861,335 shares.

Shareholder Information

Substantial shareholders

As at 3 September 2010, other than the Future Fund Board of Guardians who holds 10.86% of shares (details of which are contained in the table below), we are not aware of any other substantial shareholders.

Twenty largest shareholders as at 3 September 2010

The following table sets out the Top 20 holders of our shares (when multiple holdings are grouped together):

	Shareholders	Number of Shares	% of Issued Shares
1	HSBC Custody Nominees (Australia) Limited	1,719,345,287	13.82%
2	National Nominees Limited	1,472,974,204	11.84%
3	Future Fund Board Of Guardians	1,351,368,957	10.86%
4	J P Morgan Nominees Australia Ltd	1,227,677,726	9.87%
5	Citicorp Nominees Pty Limited	505,427,856	4.06%
6	RBC Global Services Australia Nominees Pty Ltd	245,581,106	1.97%
7	Cogent Nominees Pty Limited	206,546,186	1.66%
8	ANZ Nominees Limited	131,453,136	1.06%
9	AMP Life Limited	118,283,228	0.95%
10	UBS Nominees Pty Ltd	55,255,616	0.44%
11	Australian Foundation Investment Company Limited	50,070,000	0.40%
12	Neweconomy Com Au Nominees Pty Limited	46,418,851	0.37%
13	Australian Reward Investment Alliance	40,160,285	0.32%
14	Telstra ESOP Trustee Pty Ltd	36,915,975	0.30%
15	Telstra Growthshare Pty Ltd	34,292,803	0.28%
16	Queensland Investment Corporation	28,298,501	0.23%
17	UBS Nominees Pty Ltd	26,365,219	0.21%
18	Argo Investments Limited	26,004,800	0.21%
19	Questor Financial Services Limited	22,360,865	0.18%
20	Tasman Asset Management Ltd	19,117,908	0.15%
Total		**7,363,918,509**	**59.18%**

Voting Rights

Shareholders (whether residents or non-residents of Australia) may vote at a meeting of shareholders in person, directly or by proxy, attorney or representative, depending on whether the shareholder is an individual or a company.

Subject to any rights or restrictions attaching to our shares, on a show of hands each shareholder present in person or by proxy, attorney or representative has one vote and, on a poll, has one vote for each fully paid share held. Presently, we have only one class of fully paid ordinary shares and these do not have any voting restrictions. If shares are not fully paid, on a poll the number of votes attaching to the shares is pro-rated accordingly.

Directors' Report

In accordance with a resolution of the Board, the directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited and the entities it controlled at the end of, or during the year ended, 30 June 2010. Financial comparisons used in this report are of results for the year ended 30 June 2010 compared with the year ended 30 June 2009.

Principal activity

Our principal activity during the financial year was to provide telecommunications and information services for domestic and international customers. There has been no significant change in the nature of this activity during the year.

Strategy

We are Australia's largest telecommunications and information services company. We offer a full range of products and services throughout Australia and various telecommunication services in certain overseas countries. We have the telecommunications networks, distribution channels and an integrated portfolio of assets - including BigPond®, Sensis and FOXTEL - to deliver world class services to all of our customers.

Our strategy is very clear:

- To focus on improving our customer service by making the customer the centre of everything we do;
- Continuing to deliver innovative products and services that will improve our competitiveness;
- Reduce our reliance on our traditional revenue streams by finding new businesses to invest in;
- Driving operational excellence to improve productivity and simply our business; and
- Changing the way we work to become a dynamic sales and marketing company.

Telstra must continue to prepare itself to compete in a restructured industry as competition intensifies and new telecommunications infrastructure such as the NBN is built. Our network and information technology investments, including the world class mobile (Next G™) and fixed (Next IP™) networks are providing us with the capability to streamline our processes and provide integrated telecommunication services that are simple and valued by our customers. This is differentiating us from our competitors and providing us with a capability to satisfy customers needs.

Milestones

Over the last twelve months we have continued to demonstrate our leadership, not only in customer experience and technological innovation, but also in corporate citizenship and as an employer. The company continues to play a unique role supporting Australia and Australians through good and bad times.

Our major non-financial achievements in the past year include:

For our customers

- A renewed focus on improving customer service which is reflected in the broad range of actions that we have taken over the past year. We are improving both the way we relate to our customers and our business processes. These actions include:
  - Implementing a home movers program – a special program to manage our customers' services when they move home;
  - Launching a weekend appointments program, which allows our customers for many of our services to say "come to my home on the weekend because I can't stay at home during the week";
  - Introducing a free call program which means our customers can ring our sales and service numbers from their Telstra phone for no charge; and
  - Exciting new consumer bundles and new broadband plans that represent better value for our customers.

  These actions are making a difference. Telstra has reduced complaints about the company that go to the Telecommunications Industry Ombudsmen by a third over the course of the year. We remain focused on further improving the customer experience so it becomes an unequivocal point of differentiation in the market place.

Technological innovation

- Upgraded our Next G™ network to provide capability for 42Mbps peak network downlink speed (actual customer download speeds are always slower);
- Working with Nokia Siemens Networks to conduct groundbreaking trials of next generation mobile technology in Australia, successfully achieving peak network speeds of 100Mbps download and 31Mbps upload; and
- The quadrupling of capacity on the Next IP™ network between Melbourne and Sydney to meet growing demand. The capacity upgrade delivers transmission at 40Gbps.

Corporate citizenship

- Launching the Telstra Reconciliation Action Plan which includes:
  - Recruitment of qualified Indigenous candidates for up to 43 traineeships in Telstra;
  - The employment of a manager of Indigenous Employment Programs within Human Resources to increase attraction and recruitment and retention of new Indigenous employees;
  - Full integration of Indigenous suppliers into our procurement practices; and

Directors' Report

- Commencing the deployment of 5,000 laptops, in partnership with One Laptop per Child Australia, by February 2013.

- Delivering Australia's first national emergency warning system – Emergency Alert – to State and Federal Governments; and
- Unveiling the Security Operations Centre (SOC) in Canberra which is designed to provide managed security services to enterprise and government customers across Australia. The SOC will be fully integrated with our existing network monitoring facilities.

Diversity

- Being the first Australian company to win a prestigious Catalyst Award, an annual international award for initiatives that support and advance women in business.

Other business highlights over the year include:

- Launch of Telstra T-Hub® which has revolutionised the home phone. The T-Hub is a new generation of home phone that combines the features of telephony, information and entertainment;
- Launch of Telstra T-Box® bringing internet entertainment to the main TV screen in Australian homes;
- Entering into contracts to provide cloud services to our enterprise customers such as Komatsu Australia;
- Entering into strategic partnerships with the NSW Department of Education and Training and Catholic Education to provide improved broadband services to thousands of different education premises;
- Continued strong growth in wireless broadband, with customers growing by 58% to 1.65 million;
- Growing total mobile data revenue by 22%; and
- Growing IP access revenue by 24%.

National Broadband Network ('NBN')

On 20 June 2010, Telstra signed a Non-binding Financial Heads of Agreement (FHoA) with NBN Co to participate in the rollout of the National Broadband Network (NBN).

The transaction, if completed, would deliver to Telstra a post-tax net present value of approximately $11 billion. This includes payment for the decommissioning of Telstra's copper network and cable broadband service, use of Telstra's infrastructure, and the value to Telstra of avoiding costs, including certain Universal Service Obligation (USO) costs. Payments would be made progressively to Telstra.

The transaction would see Telstra progressively migrate its voice and broadband traffic from its copper and cable networks to NBN Co's network as it is rolled out. Telstra would continue to use its cable network to meet its pay TV contract with FOXTEL.

The FHoA provides the framework for definitive agreements to be negotiated over the coming months. Should those agreements be finalised, Telstra expects they would be put to shareholders in the first half of 2011. Shareholders and investors would receive comprehensive detail in relation to the definitive agreements and an independent expert's report on the transaction well before the shareholder vote.

In addition to requiring shareholder approval, the FHoA has a range of conditions, including the passage of necessary enabling legislation and ACCC approval. Accordingly, there can be no guarantee at this time that the transaction will progress to completion.

Financial performance

Our net profit for the year was $3,940 million (2009: $4,076 million) down 3.3%. This result was after deducting:

- net finance costs of $963 million (2009: $900 million); and
- income tax expense of $1,598 million (2009: $1,582 million).

Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 0.9% to $10,847 million. Earnings before interest and tax (EBIT) decreased by 0.9% to $6,501 million on a reported basis (this includes an impairment of goodwill associated with CSL New World of $168 million).

On our guidance basis, excluding the impairment, EBITDA increased 0.6% and EBIT increased 1.7%.

Operating expenses (before depreciation and amortisation) declined by $485 million or 3.3% to $14,184 million as the company focused on cost control and productivity in the light of the top-line pressure. Including depreciation and amortisation, expenses declined by 2.8%.

Our total revenue (excluding finance income) decreased by $590 million or 2.3% to $24,917 million (2009: $25,507 million).

PSTN revenue declined by 8.0% during the year to $5,833 million. In the second half of the year, the PSTN revenue decline was 9.0%, an acceleration on the 6.9% decline in the first half of the year. This decline was driven by continued lower usage across all calling categories, most notably in local calls and national long distance. There was also a further acceleration in line loss to 4.2% in the year at a retail level versus a 1.7% decline in 2009, equivalent to 326,000 lines. Growth in Line Sharing Services (LSS) and Unbundled Local Loop (ULL) uptake by competitors continues to be strong, but there was also a significant increase in net line cancellations, with more than 200,000 in the year. Although some of these cancellations were a substitution to our mobile or IP Telephony products, the underlying trend is still negative. We believe that mobile voice-only households now constitute around 12% of the market, up from around 8% a year ago.

Fixed internet revenue declined by 0.7% to $2,144 million. As the broadband market matures, coupled

Directors' Report

with intense competition, we have seen a decline of 19,000 retail fixed broadband customers in the year. However, in the second half we benefited from a suite of new products and offers with retail fixed broadband subscribers growing 11,000 in the half. Fixed retail broadband average revenue per user (ARPU) continues to grow and is now at $57 per month, an increase of 0.9% on the prior year. Competition from wireless continues to put pressure on the fixed broadband market, as it does on the fixed voice market.

Mobile revenue growth remains strong, a testament to our network investments and the value customers place on mobility. Mobile services revenue grew by 5.9% to $6,461 million in the year with growth in the second half accelerating to 7.1%. Mobiles is the largest product portfolio at 29% of total revenue. Voice revenue declines are more than offset by growth in data usage with total mobile data revenue growth of 21.7%. Messaging revenue grew by 14.2% to $1,023 million in the year. Non-messaging revenue grew by 20.7% to $660 million in the year and wireless broadband revenue grew by 34.1% to $787 million in the year.

IP and data revenues continue to perform well and increased 1.7% to $1,772 million as we manage our major customers' migration to IP. Growth in IP Access revenue in the year was 23.5% to $835 million and as expected the growth accelerated in the second half to 25.6%. Our IP and cloud computing services continue to produce significant contract wins including Komatsu in the year. We continue to see significant opportunities in the managed network services space.

Sensis is our advertising subsidiary which helps you find, buy and sell through service offerings including Yellow™, White Pages®, 1234, Citysearch, Whereis® and our MediaSmart digital display advertising business. Sensis income was down 2.1%, EBITDA grew by 2.3% and EBITDA margins were up two percentage points to 54%.

Transformation

During the year our transformation program was closed and we moved into a business as usual state. Capital expenditure under the transformation program was $0.2 billion over our expectations, with a $1.3 billion underspend on our wireless and wireline transformation offset by $1.5 billion more spent on our IT program due to the extended scope of the program. Our fiscal year 2010 Return on Investment (ROI) of 23.5% significantly exceeds the ROI outcome expected had we not undertaken this program. The transformation provides the foundation for ongoing product and service differentiation and improvements in operations.

Reported profit after tax and non-controlling interests declined 4.7% to $3,883 million and basic earnings per share (EPS) decreased by 4.7% from 32.9 cents to 31.4 cents.

Cash flow and financial condition

Our credit rating outlook at 30 June 2010 is consistent with the prior year. Our credit ratings are as follows:

	Long term	Short term	Outlook
Standard & Poors	A	A1	Negative
Moodys	A2	P1	Negative
Fitch	A	F1	Negative

We reported a strong free cash flow position and we continue to generate cash through ongoing operating activities and through careful capital and cash management.

Free cashflow of $6,225 million was generated in the year, a significant increase of $1,860 million or 43% from fiscal 2009. This total does include a number of non-recurring items such as tax refunds for $247 million. Importantly, we continue to invest in the business with capital expenditure of $3,471 million in the year, or 14% of sales revenue.

This cash position, combined with our borrowing program, will continue to support our ongoing operating and investing activities within our target financial parameters.

Our net debt at 30 June 2010 was $13,926 million, down $1,729 million from 30 June 2009. The decrease is due to strong free cash flow being used for repayments of borrowings which have exceeded new inflows from long term borrowings resulting in net debt gearing of 52%.

Dividends, investor returns and other key ratios

Our basic earnings per share decreased 4.7% to 31.4 cents per share in fiscal 2010, from 32.9 cents per share in the prior year. The decline included one-off factors such as foreign exchange fluctuations, fair value adjustments in debt, the sale of the KAZ business and an impairment to our investment in CSL New World. Excluding these factors, earnings per share would have increased year on year by 7.6%.

Other relevant measures of return include the following:

- Return on average assets - 2010: 17.3% (2009: 17.4%); and
- Return on average equity - 2010: 30.9% (2009: 33.3%).

On 12 August 2010, the directors resolved to pay a final fully franked dividend of 14 cents per ordinary share ($1,737 million), bringing dividends per share for fiscal 2010 to 28 cents per share. The record date for the final dividend will be 27 August 2010 with payment being made on 24 September 2010. Shares will trade excluding entitlement to the dividend on 23 August 2010.

Dividends paid during the year are as follows:

Dividend	Date resolved	Date paid	Dividend per share	Total dividend
Final dividend for the year ended 30 June 2009	13 August 2009	25 September 2009	14 cents franked to 100%	$1,737 million
Interim dividend for the year ended 30 June 2010	11 February 2010	26 March 2010	14 cents franked to 100%	$1,737 million

Directors' Report

No final decision with respect to the payment or funding of future ordinary dividends has been made. The Board will make these decisions in the normal cycle having regard to, among other factors, the Company's earnings and cash flow requirements, as well as regulatory decision impacts.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of our Company during the financial year ended 30 June 2010.

Business strategies, likely developments and prospects

The directors believe, on reasonable grounds, that we would be likely to be unreasonably prejudiced if the directors were to provide more information than there is in this report or the financial report about:

- the business strategies, likely developments and future prospects of our operations; or
- the expected results of those operations in the future.

We do note, however, that in the last year, the Federal and State Governments have enacted and/or proposed a number of legislative reforms which affect our business operations. We are managing the impact of these reforms as and when they occur.

Outlook

2010 was undoubtedly a challenging year as we managed intense competition and an accelerating shift of voice and data to our mobile networks.

In the last six months we have seen the operating performance in a number of key areas begin to improve. In the second half we have seen improving growth in our mobile business, and a return to fixed broadband subscriber growth as well as growth in both our Business, and Enterprise and Government segments.

2011 will be a transition year as we invest to prepare the company to compete in the future. We will:

- continue to improve customer service and satisfaction;
- simplify the business, re-engineer core processes and reduce costs; and
- prepare the business for an NBN world by investing to grow new revenue streams that compensate for reductions in traditional fixed revenues.

We are making capital investment and operational expenditure investment to develop and improve our product and service delivery capability. We believe this investment will allow us to fulfil the longer-term imperative of creating sustainable shareholder value.

The benefits of this necessary investment will become obvious from 2012.

In 2011, we expect an increase in the customer base and flattish revenue, but because of our additional investments and changing product mix we expect a high single digit percentage decline in EBITDA, and Free cashflow between between $4.5 and $5 billion.

Excluding any possible spectrum acquisition costs, we foresee capex/sales around the 14% level for the medium term.

Guidance Summary*	
Measure	**FY11 Guidance**
Sales Revenue	Flattish
EBITDA	High single digit percentage decline
Capex/sales	14%
Free cashflow	$4.5-5.0 billion

** Guidance assumes wholesale product price stability, no additional impairments to investments and excludes any proceeds on the sale of businesses.*

Events occurring after the end of the financial year

The directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected or may significantly affect in future years Telstra's operations, the results of those operations or the state of Telstra's affairs, other than the following:

- On 28 July 2010 the Federal Court of Australia handed down its decision in proceedings commenced by the ACCC against us on 19 March 2009 in respect of 30 separate refusals to provide access to main distribution frame facilities in seven of Telstra's exchanges between January 2006 and February 2008. We accepted liability in the proceedings in relation to a number of the allegations. The Federal Court decided to make declarations that Telstra breached its legal obligations and should pay a total penalty of $18.55 million. Telstra has indicated publicly that it will not appeal the decision.

Details of directors and executives

Changes to the directors of Telstra Corporation Limited during the financial year and up to the date of this report were:

- Russell A Higgins AO was appointed as a non-executive Director from 15 September 2009;
- Steven M Vamos was appointed as a non-executive Director from 15 September 2009;
- Charles Macek was a non-executive Director until his retirement on 4 November 2009;
- Peter J Willcox was a non-executive Director until his resignation on 27 August 2009; and
- Nora L Scheinkestel was appointed as a non-executive Director effective 12 August 2010.

Information about our directors and senior executives is provided as follows and forms part of this report:

- names of directors and details of their qualifications, experience, special responsibilities and directorships of other listed companies are given on pages 54 to 57;

Directors' Report

- number of Board and Committee meetings and attendance by directors at these meetings is provided on page 58;
- details of director and senior executive shareholdings in Telstra are shown on pages 58 to 59; and
- details of director and senior executive remuneration is detailed in the remuneration report on pages 61 to 76.

Company Secretary

The qualifications and experience of our Company Secretary are detailed on page 57 and form part of this report.

Directors' and officers' indemnity

Constitution

Our constitution provides for us to indemnify each officer to the maximum extent permitted by law for any liability incurred as an officer of Telstra or a related body corporate. It also provides for us to indemnify each officer to the maximum extent permitted by law for legal costs and expenses incurred in defending civil or criminal proceedings.

If one of our officers or employees is asked by us to be a director or other officer of a company which is not related to us, our constitution provides for us to indemnify the officer or employee for any liability he or she incurs. This indemnity only applies if the liability was incurred in the officer's or employee's capacity as an officer of that other company. Our constitution also allows us to indemnify employees and outside officers in some circumstances. The terms "officer", "employee" and "outside officer" are defined in our constitution.

Deeds of indemnity in favour of directors, officers and employees

We have also executed deeds of indemnity in favour of (amongst others):

- directors of the Telstra Entity (including past directors);
- secretaries and executive officers of the Telstra Entity (other than Telstra Entity directors) and directors, secretaries and executive officers of our wholly owned subsidiaries;
- directors, secretaries and executive officers of a related body corporate of the Telstra Entity (other than a wholly owned subsidiary) while the director, secretary or executive officer was also an employee of the Telstra Entity or a director or employee of a wholly owned subsidiary of the Telstra Entity (other than Telstra Entity directors); and
- certain employees of Telstra in particular circumstances.

Each of these deeds provides an indemnity as permitted under our constitution and the Corporations Act 2001. The deeds in favour of directors of the Telstra Entity also give directors certain rights of access to our books and require us to maintain insurance cover for the directors.

Additionally, we have executed an indemnity in favour of employees (including executive officers other than directors) in respect of certain liabilities incurred in the formulation, entering into or carrying out, of a Telstra Sale Scheme (as defined in the Telstra Corporation Act 1991 (Cwth)). The indemnity is subject to an exclusion for liabilities arising out of conduct involving a lack of good faith. Although all Telstra Sale Schemes conducted by the Commonwealth Government have been completed, the indemnity will remain in place while it is possible for claims to arise under a Telstra Sale Scheme.

Directors' and officers' insurance

Telstra maintains a directors' and officers' insurance policy that, subject to some exceptions, provides worldwide insurance cover to past, present or future directors, secretaries or executive officers of the Telstra Entity and its subsidiaries. Telstra has paid the premium for the policy. The directors' and officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

Environmental regulation and performance

Our operations are subject to significant environmental regulation under Commonwealth, State and Territory law, particularly with regard to:

- the impact of the installation and maintenance of telecommunications infrastructure;
- energy and water efficiency;
- reporting of a range of environmental matters including energy use and greenhouse gas emissions;
- packaging of products;
- site contamination and pollution; and
- waste management.

We are subject to the Energy Efficiency Opportunities Act 2006 (Cwlth) and registered on 31 March 2007. We submitted our Assessment and Reporting Schedule on 24 December 2007 and the second government and public reports in December 2009 as required by the legislation.

We are required to report on our greenhouse gas emissions, energy consumption and energy production under the National Greenhouse and Energy Reporting Act 2007 (Cwlth). We registered by 31 August 2009 and submitted our first report by 31 October 2009.

We have well established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force.

We have not been fined or prosecuted for, or convicted of, any significant breaches of environmental regulation during the financial year.

Non-audit services

During fiscal 2010, our auditor Ernst & Young has been employed on assignments additional to their statutory

Directors' Report

audit duties. Details of the amounts paid or payable to Ernst & Young for audit and non-audit services provided during the year are detailed in note 8 to the financial statements.

The directors are satisfied that the provision of non-audit services during fiscal 2010 is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (the Act), and that the nature and scope of each type of non-audit service provided did not compromise the auditor independence requirements of the Act for the following reasons:

- all recurring audit engagements are approved by the Audit Committee each year through the Audit Committee's approval of the annual audit plan;
- additional audit and non-audit services require approval from the Chief Financial Officer which is communicated to the Audit Committee at the next meeting;
- fees earned from non-audit work undertaken by Ernst & Young are capped at 1.0 times the total audit fee; and
- the provision of non-audit services by Ernst & Young is monitored by the Audit Committee via semi-annual reports to the Audit Committee.

Ernst & Young is specifically prohibited from performing any of the following services:

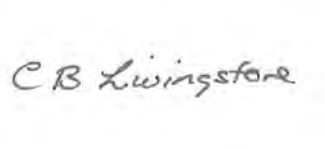
- bookkeeping services and other services related to preparing our accounting records of financial statements;
- financial information system design and implementation services;
- appraisal or valuation services, fairness opinions, or contribution in kind reports;
- actuarial services;
- internal audit services;
- management or human resources functions;
- temporary staff assignments;
- broker or dealer, investment advisor, or investment banking services; and
- legal services or expert services unrelated to the audit.

A copy of the auditors' independence declaration is set out on page 60 and forms part of this report.

Rounding of amounts

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission Class Order 98/100, dated 10 July 1998 and issued pursuant to section 341(1) of the Corporations Act 2001. As a result, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars, except where otherwise indicated.

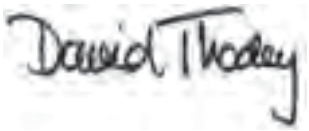
This report is made on 12 August 2010 in accordance with a resolution of the directors.



Catherine B Livingstone AO

Chairman

12 August 2010



David I Thodey

Chief Executive Officer and Executive Director

12 August 2010

Directors' Report

Directors' profiles

As at 12 August 2010, our directors were as follows:

Name	Age	Position	Year of initial appointment	Year last re-elected (1)
Catherine B Livingstone	54	Chairman, Non-executive Director	2000	2008
David I Thodey	56	Chief Executive Officer, Executive Director	2009	-
John V Stanhope	59	Executive Director	2009	-
Geoffrey A Cousins	67	Non-executive Director	2006	2009
Russell A Higgins	60	Non-executive Director	2009	-
John P Mullen	55	Non-executive Director	2008	-
Nora L Scheinkestel	50	Non-executive Director	2010	-
John M Stewart	61	Non-executive Director	2008	-
John W Stocker	65	Non-executive Director	1996	2009
Steven M Vamos	52	Non-executive Director	2009	-
John D Zeglis	63	Non-executive Director	2006	2009

(1) *Other than the CEO, directors may not hold office for more than three years or beyond the third annual general meeting (AGM) following their appointment (whichever is the later) without re-election. A director appointed to fill a casual vacancy must stand for election at the next AGM.*

A brief biography for each of the directors as at 12 August 2010 is presented below:

Catherine B Livingstone – AO, BA (Hons), Hon DSc (Murdoch), Hon DBus (Macquarie), FCA, FTSE, FAICD

Ms Livingstone joined Telstra as a non-executive Director in November 2000 and was appointed as Chairman on 8 May 2009. She is the chairman of the Nomination and NBN Committees and a member of the Remuneration, Audit and Technology Committees.

Experience:

Ms Livingstone is a Chartered Accountant and has held several finance and general management roles predominantly in the medical devices sector. Ms Livingstone was the Chief Executive of Cochlear Limited (1994 – 2000).

Directorships of other listed companies - current:

Director, Macquarie Bank Limited (2003 -), Macquarie Group Limited (2007 -) and WorleyParsons Ltd (2007 -).

Directorships of listed companies - past three years:

Nil

Other:

Current: Director, Future Directions International Pty Ltd (2007 -); Member, New South Wales Innovation Council (2007 -) and the Royal Institution of Australia (2009 -).

Former: Chairman, CSIRO (2001 - 2006); Chairman and Director, Australian Business Foundation (2000 – 2005); Director, Goodman Fielder Ltd (2000 – 2003), Rural Press Limited (2000 – 2003), Macquarie Graduate School of Management Pty Ltd (2007 - 2008) and Sydney Institute (1998 – 2005). Previously, also Member, Department of Accounting and Finance Advisory Board Macquarie University, Business/ Industry/Higher Education Collaboration Committee (BIHECC) and Federal Government's National Innovation System Review Panel.

David I Thodey - BA

Mr Thodey became Chief Executive Officer and an executive director on 19 May 2009.

Experience:

Mr Thodey joined Telstra in April 2001 as Group Managing Director of Telstra Mobiles. He was appointed to the position of Group Managing Director Telstra Enterprise and Government in December 2002 and was responsible for the company's corporate, government and large business customers in Australia, TelstraClear in New Zealand and Telstra's International sales division.

Before joining Telstra, Mr Thodey was Chief Executive Officer of IBM Australia/New Zealand and previously held several senior executive positions in marketing and sales with IBM across Asia Pacific.

He holds a Bachelor of Arts in Anthropology and English from Victoria University in New Zealand. Mr Thodey attended the Kellogg Post-Graduate School General Management Program at Northwestern University in Chicago.

Directorships of other listed companies - current:

Nil

Directorships of listed companies - past three years:

Nil

Other:

Current: Chairman of Sensis Pty Ltd (2009 –).

Former: Chairman, TelstraClear New Zealand (2003 – 2009); Chairman, Basketball Australia (2008 - 2010).

John V Stanhope - B Com (Economics and Accounting), FCPA, FCA, FAICD, FAIM

Mr Stanhope was appointed as an executive Director on 8 May 2009. He was appointed to the role of Chief Financial Officer (CFO) and Group Managing Director, Finance & Administration in October 2003.

Directors' Report

Experience:

Since joining Telstra in 1967, Mr Stanhope has held a number of operational roles and a range of senior financial management positions, including Director, Finance. In this role, which he assumed in 1995, he contributed to the T1 and T2 share sales, cost reduction programs, growth strategies, debt raising, capital management and organisational restructures.

In his current role as CFO and GMD Finance & Administration, Mr Stanhope is responsible for finance; treasury; risk management and assurance; corporate planning, reporting and analysis; business services; investor relations; corporate security and investigations, procurement, billing and business improvement. He also managed Telstra's involvement in the Federal Government's T3 sale of Telstra shares.

Directorships of other listed companies - current:

Director, AGL Energy Limited (2009 -).

Directorships of listed companies - past three years:

Nil

Other:

Current: Chairman, Business Coalition for Tax Reform (2003 -); Director, TelstraClear Ltd (2001 -), CSL New World Mobility Ltd (2004 -), Telstra Superannuation Scheme (1996 -), Sensis Pty Ltd (1998 -), SouFun Holdings Ltd (2007 -), Sequel Limited (2008 -), Octave Investments Holdings Limited (2009 -), Dotad Media Holdings Limited (2010 -), Foxtel Management Pty Ltd (2010 -), Foxtel Cable Television Pty Ltd (2010 -) and Melbourne International Jazz Festival (2009 -); Member, Financial Reporting Council (2006 -) and G100.

Geoffrey A Cousins

Mr Cousins joined Telstra as a non-executive Director in November 2006. He is a member of the Nomination and Remuneration Committees.

Experience:

Mr Cousins has more than 26 years experience as a company director. Mr Cousins was previously the Chairman of George Patterson Australia and is a former Director of Publishing and Broadcasting Limited, the Seven Network, Hoyts Cinemas group and NM Rothschild & Sons Limited. He was the first Chief Executive of Optus Vision and before that held a number of executive positions at George Patterson, including Chief Executive of George Patterson Australia.

Directorships of other listed companies - current:

Nil

Directorships of listed companies - past three years:

Director, Insurance Australia Group Ltd (2000 - 2007).

Other:

Former: Chairman, Cure Cancer Australia (2004 - 2007), The Starlight Foundation (1988 - 1994) and Museum of Contemporary Art (1990 – 1994); Director, Globe International Limited (2001 - 2003), Sydney Theatre Company Ltd (1990 – 1996), St George Foundation Ltd (1989 – 1995) and The Smith Family (1988 – 1994); President, The Shore Foundation Ltd (1992 – 1994).

Mr Cousins was previously a consultant to the Prime Minister.

Russell A Higgins - AO, BEc, FAICD

Mr Higgins joined the Telstra Board as a non-executive Director on 15 September 2009. He is a member of the Audit and NBN Committees.

Experience:

Mr Higgins is an experienced company director who has worked at very senior levels of both government and private sectors. He is Chairman of the Global Carbon Capture and Storage Institute, a global initiative to accelerate the worldwide development of carbon capture and storage technologies. From 2003 to 2004, he was Chairman of the then Prime Minister's Energy Task Force. Prior to that he was Secretary of the Department of Industry, Science and Resources.

Directorships of other listed companies - current:

Director, APA Group (2004 -) and Ricegrowers Limited (SunRice) (2005 -).

Directorships of listed companies - past three years:

Director, Australian Biodiesel Group (2006 - 2007).

Other:

Current: Chairman, Global Carbon Capture and Storage Institute (2009 -); Chair, CSIRO Energy Transformed Flagship Advisory Committee (2005 -).

Former: Chairman, Snowy Hydro-Electric Scheme (1992 - 1997), CRC for Coal in Sustainable Development (2004 - 2008), APEC Energy Working Group (1993 - 1997); Director, Export Finance and Insurance Corporation (1997 - 2002), CSIRO (1997 - 2002), Austrade (1997 - 2002), Australian Tourist Commission (1997 - 2002) and Australian Sports Commission (1997 - 2002).

John P Mullen

Mr Mullen joined Telstra as a non-executive Director in July 2008. He is the Chairman of the Remuneration Committee and a member of the Nomination Committee.

Experience:

Mr Mullen has worked for over two decades in a multitude of senior positions with different multinationals. His corporate experience includes 10 years with the TNT Group, with two years as its Chief Operating Officer. From 1991 to 1994, he held the position of Chief Executive Officer of TNT Express

Directors' Report

Worldwide, based in the Netherlands. Mr Mullen joined Deutsche Post World Net (DPWN) as an Advisor in 1994, becoming Chief Executive Officer of DHL Express Asia Pacific in 2002 and Joint Chief Executive Officer, DHL Express in 2005. From 2006 to 2009, Mr Mullen was Global Chief Executive Officer, DHL Express.

Directorships of other listed companies - current:

Director, Brambles Limited (2009 -), MAp Airports Limited (2010 -).

Directorships of listed companies - past three years:

Director, Deutsche Post World Net, Board of Management, Germany (2005 - 2009) and Embarq Corporation USA (2006 - 2009).

Other:

Current: Member, Australian Graduate School of Management (2005 -) and Chairman, National Foreign Trade Council (Washington DC) (2008 -).

Former: Director, International Swimming Hall of Fame (USA) (2005 - 2008).

Nora L Scheinkestel - LLB(Hons), PhD, FAICD

Dr Scheinkestel joined Telstra as a non-executive Director on 12 August 2010.

Experience:

Dr Nora Scheinkestel is an experienced company director having served in a wide range of industry sectors and in the public, government and private spheres. Dr Scheinkestel is also an Associate Professor at the Melbourne Business School at Melbourne University and a member of the Takeovers Panel. Dr Scheinkestel's executive background is as a senior banking executive in international and project financing, responsible for the development and financing of major projects in Australasia and South East Asia. Her current consulting practice assists government, corporate and institutional clients in areas such as corporate governance, strategy and finance. In 2003, Dr Scheinkestel was awarded a centenary medal for services to Australian society in business leadership.

Directorships of other listed companies - current:

Director, AMP Limited (2003 -), Orica Limited (2006 -) and Pacific Brands Limited (2009 -).

Directorships of listed companies - past three years:

Director, Newcrest Mining Limited (2000 - 2007), Mayne Pharma Limited (2005 - 2007), Mayne Group Limited (2005), PaperlinX Ltd (2000 - 2009) and North Limited (1996 - 2000).

Other:

Former: Chairman, South East Water Limited (2002 - 2005) and Energy21 and Stratus Networks Gas Group (1997 - 1999); Director, IOOF Funds Management (1998 - 2001), Medical Benefits Fund of Australia Ltd (1997 - 2001), Hydro Tasmania (2001 - 2004), City West Water Ltd (1995 - 2002) and Docklands Authority (1998 - 2003).

John M Stewart - BA, FCIB, ACII

Mr Stewart joined Telstra as a non-executive Director in April 2008. He is a member of the Audit Committee.

Experience:

Mr Stewart has had a long and successful career in the finance industry since he first joined Woolwich PLC in 1977. Mr Stewart was appointed to the Board of Woolwich in 1995 and became Chief Executive in 1996. Following Woolwich's acquisition by Barclays PLC in October 2000, Mr Stewart was appointed Deputy Chief Executive Officer and became a member of the Barclays Group Board and Group Executive Committee. In August 2003, he joined the Group comprising National Australia Bank (NAB), the Clydesdale & Yorkshire banks in the UK, the Bank of New Zealand, and nabCapital, as Chief Executive, Europe and Principal Board Member. In February 2004, Mr Stewart was appointed Group Chief Executive Officer of NAB and retired from the NAB effective 31 December 2008.

Directorships of other listed companies - current:

Director, Bank of England (2009 -); Chairman, Legal & General Group plc (2010 -).

Directorships of Listed companies - past three years:

Director and Chief Executive Officer, National Australia Bank (2004 - 2008).

Other:

Former: Chair, Australian Bankers' Association (2007 – 2008); Director, Business Council of Australia (2006 - 2008); Executive Director, Barclays PLC (2000 - 2003); Group CEO, Woolwich PLC (1996 - 2000); Member, Scottish Enterprise's International Advisory Board (2006 - 2009) and the Federal Attorney General's Business-Government Advisory Group on national security.

Mr Stewart was also a member of a former Prime Minister's Task Group on Emissions Trading.

John W Stocker - AO, MB, BSc, BMedSc, PhD, FRACP, FTSE

Dr Stocker joined Telstra as a non-executive Director in October 1996. He is chairman of the Audit Committee and a member of the Technology and NBN Committees.

Experience:

Dr Stocker has had a distinguished career in pharmaceutical research and extensive experience in management of research and development, and its commercialisation including in his roles as Chief Executive of CSIRO (1990 - 1995) and subsequently, as Chief Scientist for the Commonwealth of Australia (1996 - 1999).

Directorships of other listed companies - current:

Director, Nufarm Limited (1998 -).

Directors' Report

Directorships of listed companies - past three years:

Director, Cambridge Antibody Technology Group plc (1995 - 2006), Circadian Technologies Ltd (1996 - 2008) and Chairman, Sigma Pharmaceuticals Ltd (2005 - 2010).

Other:

Current: Principal, Foursight Associates Pty Ltd (1996 -).

Former: Chairman, Grape and Wine Research and Development Corporation (1997 – 2004), Sigma Company Ltd (1998-2005), CSIRO (2007 - 2010) and The Australian Wine Research Institute Ltd (2009 - 2010).

Steven M Vamos - BEng (Hons)

Mr Vamos joined the Telstra Board as a non-executive Director on 15 September 2009. He is also a member of the Audit, Remuneration, Nomination and NBN Committees.

Experience:

Mr Vamos has 30 years experience in the information technology, internet and online industry. He led Microsoft Australia and New Zealand from 2003 to January 2007 before moving to the United States to become the company's online business head of worldwide Sales and International Operations. Previously, he was Chief Executive Officer of ninemsn. Mr Vamos also worked for Apple Computer in the 1990s after spending 14 years in senior management roles at IBM Australia. He is the founding President of the Society for Knowledge Economics (SKE), a not-for-profit think tank that encourages new and better practices in leadership and management.

Directorships of other listed companies - current:

Nil

Directorships of listed companies – past three years:

Nil

Other:

Current: President, Society for Knowledge Economics (2005 -).

Former: Chief Executive Officer, ninemsn (1998 – 2002); Vice President, Australia and New Zealand, Microsoft (2003 - 2007).

John D Zeglis - BSc Finance, JD Law

Mr Zeglis joined Telstra as a non-executive Director in May 2006. He is a Chairman of the Technology Committee.

Experience:

Mr Zeglis has a legal background, and became partner with the law firm Sidley & Austin in 1978. He was General Counsel of AT&T from 1986 - 1998. His qualifications include a BSc in Finance from the University of Illinois, and a JD in Law from Harvard.

Mr Zeglis has had a long and distinguished career in the US telecommunications sector. He joined AT&T in 1984, and was elected as President of AT&T in 1998 and Chairman and Chief Executive Officer of the AT&T Wireless Group in 1999. He continued as CEO of AT&T Wireless until retiring in November 2004 following the company's sale to Cingular Wireless.

Directorships of other listed companies - current:

Director, Helmerich & Payne Corporation (1989 -).

Directorships of listed companies - past three years:

Nil

Other:

Current: Director, AMX Corporation (2005 -) and State Farm Automobile Insurance (2004 -).

Former: Director, Georgia Pacific Corporation (2001 - 2005); Sara Lee Corporation (1998 - 2000) and Illinois Power Company (1992 - 1996).

Company secretary

Carmel C Mulhern - BA, LLM, FCIS

Ms Mulhern was appointed company secretary of Telstra Corporation Limited on 7 September 2007.

Ms Mulhern joined Telstra in July 2000 as Corporate Counsel and was appointed General Counsel Finance and Administration in 2001. In those roles, she has been responsible for Telstra's continuous disclosure compliance, preparation of the annual report and all legal aspects of the annual general meeting and annual financial results announcements. She played a key role in the T2 and T3 floats, Telstra's first off-market share buy-back, and the introduction of the dividend reinvestment plan. Before joining Telstra, Ms Mulhern was a senior associate in a leading national law firm and associate to justices of the High Court of Australia and Supreme Court of Victoria.

Former Directors

Brief biographies of the former directors are presented below:

Charles Macek - BEc, MAdmin**,** FAICD, FCPA, SF Fin, FCA

Mr Macek joined Telstra as a non-executive Director in November 2001. He was a member of the Audit and Nomination Committees and was Chairman of the Remuneration Committee. Mr Macek ceased as Director on 4 November 2009.

Peter J Willcox - MA

Mr Willcox joined Telstra as a non-executive Director in May 2006. He was a member of the Audit, Nomination, Remuneration and NBN committees. Mr Willcox resigned as Director on 27 August 2009.

Directors' Report

Directors' meetings

Each director attended the following Board and committee meetings during the year as a member of the Board or relevant committee:

	Board		Committees (1)									
			Audit		Nomination		Remuneration		Technology		NBN	
	a	b	a	b	a	b	a	b	a	b	a	b
C B Livingstone	13	13	6	6	5	5	5	5	3	3	16	16
D I Thodey	13	13	-	-	-	-	-	-	-	-	16	15
J V Stanhope	13	13	-	-	-	-	-	-	-	-	16	16
G A Cousins	13	13	-	-	5	5	5	5	-	-	-	-
R A Higgins(2)	12	12	5	5	-	-	-	-	-	-	11	11
J P Mullen	13	12	-	-	3	3	3	2	-	-	-	-
J M Stewart	13	13	5	5	3	3	4	3	-	-	-	-
J W Stocker	13	13	6	6	-	-	-	-	3	3	16	15
S M Vamos(3)	12	12	5	5	2	2	1	1	-	-	11	10
J D Zeglis	13	13	-	-	-	-	-	-	3	3	-	-
C Macek(4)	2	2	2	2	2	2	3	3	-	-	-	-
P J Willcox(5)	1	1	1	1	1	1	1	1	-	-	3	3
N L Scheinkestel(6)	-	-	-	-	-	-	-	-	-	-	-	-

Column a: number of meetings held while a member.
Column b: number of meetings attended.

(1) Committee meetings are open to all Directors to attend in an ex officio capacity.
(2) Appointed as non-executive Director effective 15 September 2009.
(3) Appointed as non-executive Director effective 15 September 2009.
(4) Ceased as a non-executive Director effective 4 November 2009.
(5) Resigned from the Board effective 27 August 2009.
(6) Appointed as non-executive Director effective 12 August 2010.

Director and senior executive shareholdings in Telstra

As at 12 August 2010:

Directors

	Number of shares held		
	Direct interest	Indirect interest (1)	Total
Catherine B Livingstone	-	98,819	98,819
David I Thodey	271,600	223,588	495,188
John V Stanhope	433,440	-	433,440
Geoffrey A Cousins	-	21,765	21,765
Russell A Higgins	5,320	17,672	22,992
John P Mullen	-	26,159	26,159
Nora L Scheinkestel	9,100	-	9,100
John M Stewart	-	9,031	9,031
John W Stocker	18,114	163,614	181,728
Steven M Vamos	24,021	-	24,021
John D Zeglis	16,500	37,493	53,993

(1) Shares in which the director does not have a relevant interest, including shares held by the directors' related parties (including relatives), are excluded from indirect interest.

Directors' Report

Senior executives

	Number of shares held		
	Direct interest	Indirect interest (1)	Total
Bruce Akhurst	139,961	-	139,961
Nerida Caesar	10,240	-	10,240
Paul Geason	3,160	-	3,160
Glenice Maclellan	-	-	-
Kate McKenzie	102,185	-	102,185
Michael Rocca	441,982	-	441,982
Deena Shiff	294,576	-	294,576

(1) Shares in which the senior executive does not have a relevant interest, including shares held by related entities of the executive (including relatives), are excluded from indirect interest.

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Auditor's Independence Declaration to the Directors of Telstra Corporation Limited

In relation to our audit of the financial report of Telstra Corporation Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Sean C Van Gorp
Partner
Melbourne, Australia
12 August 2010

Liability limited by a scheme approved
under Professional Standards Legislation

Remuneration Report

Dear Shareholder,

Telstra is pleased to present its Remuneration Report for fiscal 2010. Telstra and its Remuneration Committee seek to design remuneration programmes that most effectively attract, retain, and motivate the highest calibre executive talent in our global marketplace. We strive to align our plans with market best practices, government guidelines and community expectations. The Committee also makes every effort to ensure executive compensation is aligned with company performance and shareholder returns.

Telstra did not meet all of its financial objectives in the 2010 fiscal year and as you will observe in the Report, this had a considerable impact on remuneration levels for our Senior Management team. The effects of not meeting our targets influence both short term and long term incentive payments, which represent a substantial amount of our executives' total remuneration. Short term incentive payments for Senior Executives in this Report averaged 22.7 per cent of their maximum potential – by far the lowest payment level in our recent history. The fiscal 2007 Long Term Incentive plan reached its final testing point on 30 June 2010. Despite having met many of the performance measures in the plan, all options from the grant have lapsed due to Telstra not meeting the plan's overall Total Shareholder Return gateway hurdle.

We were disappointed with our financial performance this year but the Committee is confident that the Company's remuneration plans were appropriate and that executive rewards were commensurate with Telstra's business performance.

In addition to a challenging economic environment, the 2010 fiscal year also marked a period of significant regulatory changes and recommendations regarding executive pay. The Committee received regular updates from external expert advisors on items such as executive termination payments, taxation of employee share schemes, APRA's prudential guidelines on remuneration, the Productivity Commission's report on its inquiry into director and executive remuneration, and other relevant topics. The Committee worked closely with management and our external advisors to ensure that our policies and practices were amended to align with any regulatory changes and to proactively address any areas of potential concern.

Finally, in relation to Long Term Incentives, the fiscal 2010 plan remained relatively consistent with the fiscal 2009 plan. The Committee agreed to continue with Relative Total Shareholder Return (RTSR) based on performance against a peer group of international telecommunication firms as a performance measure and slightly adjusted the Return on Investment (ROI) measure to Free Cashflow ROI. As Free Cashflow is a critical driver of shareholder returns, the Committee deemed Free Cashflow ROI to be a more appropriate measure to drive long-term value. Other LTI changes you will notice in the Report are that restricted shares are now the sole reward vehicle in the plan and we now have only one testing point in the plan rather than multiple tests as seen in previous plans.

On behalf of the Board, I invite you to review the full Report and thank you for your interest.

John Mullen

Chairman, Remuneration Committee

Remuneration Report

1. Introduction

The Directors of Telstra Corporation Limited (the Company) present the Remuneration Report (the Report) prepared in accordance with section 300A of the Corporations Act 2001 for the Telstra Group for the year ended 30 June 2010 (fiscal 2010).

The information provided in this Report has been audited as required by section 308(3C) of the Corporations Act 2001. This Report forms part of the Directors' Report.

2. Key Management Personnel (KMP)

KMP comprise the Directors of the Company and Senior Executives. The term "Senior Executives" refers to:

- The Chief Executive Officer; and
- All other executives who fall within the definition of Key Management Personnel of the Group (being those persons with authority and responsibility for planning, directing and controlling the activities of the Company and the Group, directly or indirectly).

The Senior Executives disclosed in this Report are as follows:

Name	Most Recent KMP Position Title
David Thodey	Chief Executive Officer
Bruce Akhurst	Group Managing Director (GMD) - Sensis
Nerida Caesar	GMD - Telstra Enterprise and Government
Paul Geason	GMD - Telstra Wholesale
Glenice Maclellan	GMD - Telstra Consumer (Acting)
Kate McKenzie	Chief Marketing Officer
Justin Milne	GMD - Telstra Media
David Moffatt	GMD - Telstra Consumer
Michael Rocca	Chief Operations Officer – Telstra Operations
Deena Shiff	GMD - Telstra Business
John Stanhope	CFO and GMD - Finance and Administration
Geoff Booth	GMD - National Broadband Network

The Senior Executives in the above table include the five highest paid Company and Group executives. Even though he does not meet the definition of a KMP, Geoff Booth, Group Managing Director NBN, is included in the remuneration tables as he is one of the five highest paid Company and Group executives for the 2010 fiscal year.

Tables 7.1 (Senior Executives) and 7.2 (Non-executive Directors) provide details of the period during which an individual has held a particular KMP position (or more than one position) during fiscal 2010.

3. Principles and Structure of Senior Executive Remuneration

3.1 Key Principles

The key principles of our remuneration philosophy are to:

- Provide market competitive remuneration to attract, motivate, and retain highly skilled Senior Executives;
- Implement best practice programs to help drive the achievement of our business and financial objectives and reinforce our values and culture; and
- Link a significant component of remuneration that is at-risk to annual performance results and the creation of long term shareholder value.

Total Remuneration comprises fixed remuneration, short term incentives and long term incentives. The aggregate value of these components creates the overall structure by which Telstra measures the competitiveness of our executive remuneration position versus the market.

3.2 Fixed Remuneration

Fixed remuneration is made up of base salary (including salary sacrifice benefits and applicable fringe benefits tax) and superannuation.

The level of fixed remuneration is set based on the Senior Executive's responsibilities, performance, qualifications and experience. Telstra benchmarks its Senior Executives' fixed remuneration against organisations within the ASX 20 and also international telecommunications firms. Market data is provided by Ernst and Young, an independent external remuneration consultant, and obtained through publicly disclosed remuneration information.

3.3 Short Term Incentive Plan (STI)

The STI is an annual "at-risk" component of remuneration for the Senior Executives and is delivered in cash. Senior Executives are paid an annual STI only when they have met threshold targets linked to Telstra's financial performance and individual key performance indicators. For fiscal 2010, the financial performance measures were set in accordance with Telstra's financial plan and strategy.

For all Senior Executives (other than for Sensis and Telstra Wholesale) the fiscal 2010 performance measures of the STI Plan were Free Cashflow, EBITDA, Total Income, Broadband Retail Revenue, PSTN (Public Switched Telephone Network) Revenue and Individual Accountabilities.

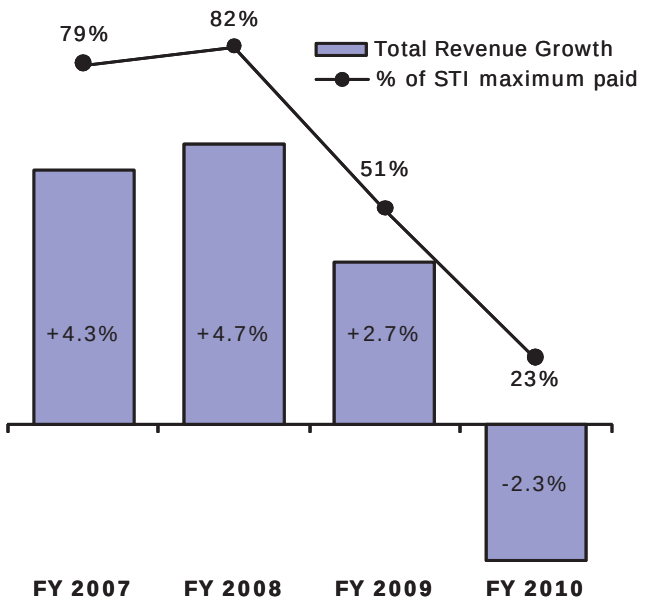
For the GMD - Sensis, the above Company measures comprise 20 per cent of the STI Plan with the remainder covering Sensis Revenue, Sensis EBITDA, and Individual Accountabilities. For the GMD - Telstra Wholesale, the PSTN and Broadband Retail Revenue measures are substituted by Telstra Wholesale EBIT Contribution and Contestable Revenue.

These performance measures were selected for the STI Plan as they are seen as a critical link between achieving outcomes of the business strategy and increasing shareholder value. The graph below demonstrates the

Remuneration Report

link between actual STI payments and Total Revenue growth. In this example, STI payments as a percentage of the maximum STI opportunity align to the direction of Telstra's total revenue percentage growth over the previous four fiscal years.

Comparison of Total Revenue growth to STI paid



Depending on the role they perform, each Senior Executive has a maximum STI opportunity ranging from 120 per cent to 160 per cent of their fixed remuneration where stretch targets are met. However, if threshold performance is not met the STI payment will be zero.

At the end of each fiscal year the Board reviews the Company's audited financial results and the results of the other performance measures and assesses performance against each measure to determine the percentage of STI that is payable.

STI payment results for fiscal 2010, compared to fiscal 2009, as a percentage of the maximum award were as follows:

Name	Fiscal 2010	Fiscal 2009
David Thodey	21.7%	49.6%
Bruce Akhurst	8.6%	48.6%
Nerida Caesar	21.7%	54.9%
Paul Geason	44.4%	n/a
Glenice Maclellan	24.2%	n/a
Kate McKenzie	19.2%	60.6%
Justine Milne	21.7%	47.9%
David Moffatt	n/a	44.9%
Michael Rocca	21.7%	50.0%
Deena Shiff	21.7%	44.9%
John Stanhope	21.7%	47.9%

As per Telstra's Short Term Incentive policy regarding retirement prior to fiscal year end, Geoff Booth received 50 per cent of the maximum STI award prorated for the number of days worked during fiscal 2010.

The table below details the fiscal 2010 results and payout percentage for the STI Plan.

Measure	Result	Outcome (% of maximum)
Free Cashflow (1)	Above Gateway	47%
EBITDA (2)	Gateway Missed	0%
Total Income (3)	Gateway Missed	0%
Broadband Retail Revenue (4)	Gateway Missed	0%
PSTN Revenue (5)	Gateway Missed	0%
Sensis Revenue (6)	Gateway Missed	0%
Sensis EBITDA (7)	Gateway Missed	0%
Wholesale EBIT Contribution (8)	Stretch Achieved	100%
Wholesale Contestable Revenue (9)	Stretch Achieved	100%

(1) Free Cashflow is unlevered Free Cashflow excluding Capex for Investment and Spectrum; and proceeds from Land & Building disposals.
(2) EBITDA is Earnings Before Interest, Tax, Depreciation & Amortisation excluding profit/loss on Land & Building disposals.
(3) Total Income is total Telstra Income excluding profit/loss on Land and Building disposals.
(4) Broadband Revenue is Retail Fixed and Wireless Broadband Revenue – excluding Hardware.
(5) PSTN Revenue is total Telstra PSTN Products Revenue.
(6) Sensis External Income – applies to the GMD - Sensis only.
(7) Sensis EBITDA is Sensis External Income less Sensis External Expenses – applies to the GMD - Sensis only.
(8) Wholesale EBIT contribution is Wholesale Earnings Before Interest and Tax excluding GSM Wholesale Domestic Roaming – applies to the GMD - Wholesale only.
(9) Wholesale Contestable Revenue is all contestable revenue for the Wholesale Group excluding GSM Wholesale Domestic Roaming revenues – applies to the GMD - Wholesale only.

3.3.1 Customer Satisfaction Bonus

In fiscal 2010, Telstra initiated a one-off Customer Satisfaction Bonus (Bonus) based on a targeted improvement to customer satisfaction. The Bonus covered all of our Australian based permanent employees with the exception of the CEO. For Senior Executives, the reward opportunity provided for an additional 10 per cent of their target STI. However, if the target level of improvement was not met, Senior Executives' target STI would be reduced by 5 percent.

The Bonus required at least a 3 per cent improvement in Telstra's Customer Satisfaction survey score. The score measures our customers' judgement as to whether our products and services provide the expected level of experience based on drivers across brand, product, service and price. Separate targets were set for Sensis and Wholesale to ensure a direct alignment to the relevant customer group.

The customer surveys were undertaken by third party research companies and the results audited by Telstra's internal Risk Management and Assurance Group.

A 4.6% improvement was achieved for Telstra and an 8.5% improvement was achieved for Wholesale triggering a Bonus payment for these areas. Sensis did not achieve their target and accordingly no Bonus was paid in that business unit.

Remuneration Report

Table 7.1 in the Report details Customer Satisfaction Bonus payments made to Senior Executives in fiscal 2010.

For the CEO, the Customer Satisfaction Bonus was not structured as an additional reward opportunity but instead formed part of the CEO's Individual Accountabilities which are linked to his performance review and remuneration. This structure ensured the CEO was accountable for the same Customer Satisfaction performance outcomes as other Telstra Senior Executives without resulting in an increase in the CEO's overall reward opportunity.

3.4 Long Term Incentive (LTI) Plan

3.4.1 Fiscal 2010 LTI Plan

Telstra's Senior Executives (and other invited senior management employees) participate in the fiscal 2010 LTI Plan (the Plan). The equity instruments under the Plan are offered at no cost. However, the performance measures of Relative Total Shareholder Return (RTSR) and Free Cashflow Return on Investment (FCF ROI) must be satisfied in order for participants to realise any reward.

The design of the fiscal 2010 LTI plan is aimed at ensuring that Telstra maintains a combination of absolute (FCF ROI) and relative (RTSR) performance measures. In addition, plan testing has transitioned to a simpler three year performance period with an additional one year restriction period for any vested shares. This ties the Plan to sustained performance over a longer period of time.

The Remuneration Committee sought feedback from shareholders and engaged Guerdon Associates - an external, independent remuneration consulting firm - as part of the design process for the fiscal 2010 LTI Plan. RTSR was maintained as a performance measure, while FCF ROI replaced the 2009 ROI performance measure on the basis that cash generation by the business is central to the creation of shareholder value.

The fiscal 2010 LTI Plan relates to the three year period to 30 June 2012. The LTI is provided through restricted shares. Allocations of restricted shares are split 50 per cent to RTSR and 50 per cent to FCF ROI with each performance measure operating independently of the other.

After 30 June 2012, the Board will review the Company's audited financial results to determine the percentage (if any) of restricted shares that vest. No reward is available under the plan in respect of a measure for performance below target for either RTSR or FCF ROI.

If a Senior Executive resigns, retires (for a non-medical related reason) or is terminated for misconduct prior to 30 June 2013 their unvested restricted shares will lapse on cessation of employment and any vested restricted shares will be forfeited (unless the Board determines otherwise).

In the event of cessation for reasons such as redundancy, death, total and permanent disablement, medical related retirement or separation by mutual agreement, a pro rata amount of unvested restricted shares will lapse relative to the Senior Executive's service period and the remaining portion may still vest at the end of the applicable performance period subject to meeting the original performance measures of the Plan. A Senior Executive who ceases employment in these circumstances will retain any vested restricted shares held by them at this time (subject to the restriction period described below).

3.4.1.1 Vesting of Restricted Shares

Until the restricted shares vest, an executive has:

- No legal or beneficial interest in the underlying shares;
- No entitlement to dividends received from the shares; and
- No voting rights in relation to the shares.

If a performance hurdle is satisfied, a specified number of restricted shares will vest and the executive will be the beneficial owner of an equivalent number of restricted trust shares.

Any restricted shares that vest are subject to a further restriction period which prevents any participant from trading or disposing of their vested restricted shares until after 30 June 2013. The trustee holds the restricted trust shares in trust until the shares are transferred to the executive at the end of the restriction period (unless the shares are forfeited). This restriction period is designed to further strengthen the link between executive and shareholder interests by ensuring executives remain focussed on long term generation of shareholder value.

There is no retesting of restricted shares and any restricted shares which do not vest following the performance period will lapse.

At the end of the relevant fiscal year in which performance testing is to occur, the Board will review the Company's audited financial results and the results of the other performance measures to determine the percentage (if any) of restricted shares that vest.

In certain limited circumstances, such as a takeover event where 50 per cent or more of all issued fully paid shares are acquired, the Board may exercise discretion to give notice that restricted shares (which have not lapsed) have vested.

3.4.1.2 Relative Total Shareholder Return (RTSR)

RTSR measures the performance of an ordinary Telstra share (including the value of any cash dividends and other shareholder benefits paid during the period) relative to the other companies in the RTSR comparator group over the plan period.

Remuneration Report

The restricted shares related to RTSR will only vest where the growth in Telstra's shareholder value is at least at the 50th percentile of the comparator group for the performance period. At the 50th percentile, 25 per cent of restricted shares vest, increasing in a straight line to 100 per cent of restricted shares vesting at the 75th percentile of the comparator group.

To ensure an appropriate match of Telstra Senior Executives against global peers, the comparator group consists of large market capitalisation telecommunications firms in developed economies.

In addition to Telstra, the entire comparator group for the fiscal 2010 LTI Plan is: AT&T Inc; Belgacom Group; Bell Canada Enterprises Inc; BT Group plc; Deutsche Telekom AG; France Telecom SA; Koninklijke KPN N.V.; KT Corporation; Nippon Telegraph & Telephone Corp; NTT DoCoMo Inc; Portugal Telecom SGPS SA; Qwest Communications International Inc; Singapore Telecommunications Ltd; SK Telecom Co Ltd; Sprint Nextel Corporation; Swisscom AG; Telekom Austria AG; Telecom Italia Sp.A.; Telecom Corporation of New Zealand Ltd; Telefonica S.A.; Telenor ASA; TeliaSonera AB; Verizon Communications Inc and Vodafone Group plc. The Board has discretion to add or change members of the comparator group under the Plan terms.

3.4.1.3 Free Cashflow Return on Investment (FCF ROI)

FCF ROI measures the average annual Free Cashflow of Telstra (less finance costs) over the performance period.

FCF ROI is calculated by dividing the average annual Free Cashflow over the entire three year performance period by Telstra's average investment over the same three year period (which is the average of the sum of net debt and shareholders' funds as at 30 June 2009 and 30 June 2012). The method of calculation of Free Cashflow generated over the period is determined by the Board.

The target and stretch performance measures for FCF ROI are detailed in the table below:

Performance Period	Test Date	FCF ROI (at Target)	FCF ROI (at Stretch)
1 July 2009 to 30 June 2012	30 June 2012	17.1%	19.1%

The number of restricted shares that will vest is calculated as follows:

- If Target level performance is achieved, 50 per cent of the FCF ROI allocation of restricted shares for that period will vest;
- If Stretch performance level is achieved, 100 per cent of the FCF ROI allocation of restricted shares for that period will vest;
- If the result achieved is between Target and Stretch, the number of vested restricted shares for that period is scaled proportionately between 50 per cent and 100 per cent; and
- No restricted shares will vest if FCF ROI is below Target.

3.4.2 Vesting LTI Plans in fiscal 2010

Section 5 of this Report provides full details of vesting events that occurred during fiscal 2010 for all relevant LTI plans.

3.5 Retention Incentives

In exceptional circumstances Telstra has put in place structured retention plans. These are designed to protect the Company from the loss of employees who possess specific skill sets considered critical to the business and where Telstra is vulnerable to losing key personnel. Such retention plans are not restricted to Senior Executives.

As detailed in Table 7.1, the second and final retention payment tranche of $1 million was paid to Michael Rocca on 1 July 2010. Michael Rocca was the only Senior Executive in fiscal 2010 to receive a Retention Incentive payment. There are currently no further Retention Incentives in place for Senior Executives.

3.6 Executive Share Ownership Policy

Telstra's Executive Share Ownership Policy requires Senior Executives to acquire and retain a number of shares equivalent in value to a minimum of 100 per cent of their fixed remuneration. Telstra recognises that LTI plans are the major means by which Senior Executives can meet their share ownership obligations. The Policy allows for Telstra to extend the date for assessing share ownership levels in the event that options for the fiscal 2007 LTI Plan were not exercisable due to Telstra not meeting the required Total Shareholder Return gateway. Accordingly, the assessment date has been extended by three years from 30 June 2012 to 30 June 2015 (or within five years of first appointment to Senior Executive level).

3.7 Restrictions and Governance

Telstra implemented a policy effective from 1 October 2008 that prohibits its Directors, Senior Executives and other designated people from using Telstra shares as collateral in any financial transaction (including margin loan arrangements) or any stock lending arrangement.

Directors, Senior Executives and other relevant employees are prohibited from entering into arrangements which effectively operate to limit the economic risk of their security holdings in Telstra allocated under incentive plans during the period the shares are held in trust on their behalf by the trustee or prior to the exercise of any security. This ensures Senior Executives are not permitted to hedge against Telstra's LTI plans.

Directors, Senior Executives and other relevant employees are required to confirm that they comply

Remuneration Report

with this policy restriction on an annual basis, this enables the Company to monitor and enforce the policy.

4. Chief Executive Officer Remuneration (David Thodey)

4.1 CEO Remuneration Mix

The structure of the CEO's remuneration package is consistent with the principles and structure of Telstra's remuneration for other Senior Executives as detailed in Section 3 of this Report.

Effective 19 May 2009, the fixed remuneration (referred to as "Total Fixed Remuneration" in his service agreement) of the CEO is $2 million per annum.

The fiscal 2010 annual STI opportunity for the CEO was 80 per cent of fixed remuneration at target performance and 160 per cent of fixed remuneration at stretch performance.

The fiscal 2010 annual LTI opportunity for the CEO was 100 per cent of fixed remuneration at target performance and 200 per cent of fixed remuneration at stretch performance.

Upon his appointment to CEO, Mr Thodey's STI opportunity was held at the same level as his previous position of Group Managing Director, Enterprise and Government. For the 2011 fiscal year, the Board has approved an increase in the CEO's STI opportunity to 100 per cent of fixed remuneration at target performance and 200 per cent of fixed remuneration at stretch performance. This adjustment aligns the CEO's variable remuneration more closely to our competitive market and reflects appropriate internal relativity.

The Board has also approved an increase of 15% in Mr Thodey's fixed remuneration, taking it to $2.3 million effective as of 1 October 2010[(i)]. Information related to the CEO's remuneration compared to the external market was provided by Ernst and Young.

No changes are recommended for the CEO's LTI opportunity.

Details of the CEO's total remuneration are provided in table 7.1 of this Report.

4.2 CEO Separation Arrangements

Table 7.8 in this Report provides details of the CEO's termination arrangements.

5. Linking Remuneration and Company Performance

The table in section 5.1 provides a summary of the key financial results for Telstra over the past five financial years. The tables in sections 5.2 to 5.4 provide a summary of how those results have impacted the remuneration outcomes for Senior Executives.

(i) Since the Remuneration Report was finalised, as part of the internal decisions being made in focusing on meeting our goals for fiscal 2011, Mr Thodey has decided to defer acceptance of his salary increase. This decision will be reviewed in March 2011.

5.1 Financial Performance

Details of the Group's performance, share price, and dividends over the past five years are summarised in the table below:

Performance Measure	Fiscal 2010 $m	Fiscal 2009 $m	Fiscal 2008 $m	Fiscal 2007 $m	Fiscal 2006 $m(1)
Earnings					
Sales revenue	24,813	25,371	24,657	23,673	22,712
EBITDA	10,847	10,948	10,416	9,861	9,575
Net profit available to Telstra	3,883	4,073	3,692	3,253	3,183
Shareholder value					
Share price ($) (3)	3.25	3.39	4.24	4.59	3.68
Total dividends paid/declared per share (c)	28.0	28.0	28.0	28.0	34.0 (2)

(1) Comparatives for fiscal 2006 have been adjusted to reflect the impact of the transition to AASB Interpretation 4 "Determining whether an Arrangement Contains a Lease".
(2) This includes special dividends of 6 cents per share in fiscal 2006 paid to shareholders as part of Telstra's Capital Management Plan.
(3) The share price displayed is as at 30 June for the respective fiscal year.

5.2 Average STI Payment as a Percentage of Maximum Payment

The average STI payment for Senior Executives as a percentage of maximum is shown in the following table:

Performance Measure	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2006
STI Received	22.7%	50.9%	81.9%	78.5%	73.8%

5.3 Detailed Results of LTI Plans as at 30 June 2010

The fiscal 2006 and fiscal 2007 LTI plans reached their final testing points on 30 June 2010.

In addition, the fiscal 2008 and fiscal 2009 LTI plans reached their interim test points on 30 June 2010 in accordance with the Terms of those Plans.

The Board assesses each measure that is required to be tested as at that time to determine if the performance hurdles have been achieved. The following tables show the results of the Board's assessment and the percentage of options, performance rights and/or restricted shares that have vested as a result.

Remuneration Report

5.3.1 Fiscal 2006 LTI Plan final testing as at 30 June 2010

Measure - Fiscal 2006 LTI	% of total allocation tested at 30 June 2010	% vested
Revenue CAGR	10.0%	7%
OPEX Growth	17.5%	0%
IT Transformation	12.5%	0%
Network Transformation	5.0%	0%
Absolute TSR	25.0%	0%
Total	70.0%	7%

5.3.2 Fiscal 2007 LTI Plan final testing as at 30 June 2010

Measure - Fiscal 2007 LTI	% of total allocation tested at 30 June 2010	% vested
OSS & BSS Systems	5.000%	0.000%
Deployment of SDF Release 2	4.375%	4.375%
SDN Access Exit	2.500%	1.416%
Sales Revenue CAGR	5.000%	0.000%
Return on Investment	12.500%	0.000%
Total Shareholder Return	12.500%	0.000%
Total	41.875%	5.791%

No options for Senior Executives have vested under the Fiscal 2007 LTI plan as the Total Shareholder Return gateway hurdle was not achieved.

5.3.3 Fiscal 2008 LTI Plan interim testing as at 30 June 2010

Measure - Fiscal 2008 LTI	% of total allocation tested at 30 June 2010	% vested
Total Shareholder Return	15%	0%
Return On Investment	15%	0%
Total	30%	0%

5.3.4 Fiscal 2009 LTI Plan interim testing as at 30 June 2010

Measure - Fiscal 2009 LTI	% of total allocation tested at 30 June 2010	% vested
RTSR	15%	0%
Return On Investment	15%	0%
Total	30%	0%

Refer to section 7.4 for further details of Telstra's Long Term Incentive Plans.

5.4 Remuneration Mix of Senior Executives

The tables below show a comparison of the fiscal 2009 and fiscal 2010 remuneration mix based on the target level of reward for Senior Executives as at 30 June for each respective fiscal year.

In accordance with the tables in Section 7 of this Report, the variable components of STI and LTI plans will only vest (and provide a reward to a Senior Executive) if the performance measures of the relevant Plans are achieved.

5.4.1 Chief Executive Officer (David Thodey)

Component	Fiscal 2010	Fiscal 2009
Fixed Remuneration	35.7%	35.7%
Short Term Incentive	28.6%	28.6%
Long Term Incentive	35.7%	35.7%
Total	100.0%	100.0%

5.4.2 Chief Financial Officer (John Stanhope)

Component	Fiscal 2010	Fiscal 2009
Fixed Remuneration	35.7%	35.7%
Short Term Incentive	28.6%	28.6%
Long Term Incentive	35.7%	35.7%
Total	100.0%	100.0%

5.4.3 Other Senior Executives – (GMD Sensis, GMD Enterprise and Government, GMD Consumer, GMD Telstra Business and GMD Telstra Networks & Services)

Component	Fiscal 2010	Fiscal 2009
Fixed Remuneration	35.7%	35.7%
Short Term Incentive	28.6%	28.6%
Long Term Incentive	35.7%	35.7%
Total	100.0%	100.0%

5.4.4 Other Senior Executives – (GMD Telstra Wholesale, GMD Telstra Media, Chief Marketing Officer)

Component	Fiscal 2010	Fiscal 2009
Fixed Remuneration	45.4%	45.4%
Short Term Incentive	27.3%	27.3%
Long Term Incentive	27.3%	27.3%
Total	100.0%	100.0%

5.4.5 Other Senior Executives – (Acting GMD Consumer)

Component	Fiscal 2010	Fiscal 2009
Fixed Remuneration	55.6%	n/a
Short Term Incentive	19.4%	n/a
Long Term Incentive	25.0%	n/a
Total	100.0%	n/a

Table 7.1 details the time in position held by each Senior Executive in fiscal 2010.

Remuneration Report

6. Non-executive Director Remuneration

6.1 Remuneration Policy and Strategy

Telstra's non-executive Directors are remunerated in accordance with Telstra's Constitution which provides for:

- An aggregate pool of fees, set and varied only by approval of a resolution of shareholders at the annual general meeting (AGM);
- The Board determining how fees are allocated among the Directors within the fee pool, based on independent advice and market practice; and
- The total non-executive Director fees not exceeding the annual limit of $3 million per annum, as approved by shareholders at the AGM in November 2007.

6.2 Remuneration Structure

Telstra's non-executive Directors continue to be remunerated with set fees. This enables them to maintain their independence and impartiality when making decisions about the future direction of the Company. The Board has established guidelines to encourage non-executive Directors to hold Telstra shares equivalent to at least 50 per cent of their annual fees. Such shares are to be acquired over a five year period from 1 July 2009 to align the remuneration structure with the interests of our shareholders.

All Board and Committee fees, including superannuation, paid to Directors in fiscal 2010 remain within the approved fee pool. Section 3.7 of this Report provides details on Restrictions and Governance as they apply to non-executive Directors.

Board and Committee fees are set out in the table below. Additional Committee fees do not apply to the position of Chairman of the Telstra Board. Director fee levels do not incorporate an at-risk component.

Board Fees	**Chairman**	**Director**
Board (fiscal 2010)	$660,000	$220,000
Committee Fees	**Committee Chair**	**Committee Member**
Audit Committee	$70,000	$35,000
Remuneration Committee	$40,000	$20,000
Nomination Committee	-	$7,000
Technology Committee	$7,000	$7,000

In fiscal 2010, selected non-executive Directors provided services to the Telstra Board NBN (National Broadband Network) Committee that were over and above their regular Committee obligations. Fees for services rendered in relation to the NBN Committee are paid out of the funds of the Company and not the Directors' Fee Pool.

There has not been an increase in the level of non-executive Directors' fees since 1 July 2008. Effective 1 July 2010, the Board has approved a 3 per cent increase to the non-executive Director base fee and an increase to the Remuneration Committee fee structure. These fee increases are within the annual fee pool of $3 million as approved by shareholders at the 2007 AGM.

Table 7.2 provides full details of non-executive Director remuneration for fiscal 2010.

6.3 Components of the Total Remuneration Package (TRP)

Each year non-executive Directors allocate their total remuneration between the three components below.

Cash	**Directshare**	**Superannuation**
Minimum 30 per cent of TRP as cash.	From 1 July 2009 nominating a per cent of TRP as Telstra shares through the Directshare plan. This is optional.	Minimum superannuation guarantee applies.

The Growthshare Trustee retains discretion to determine whether to accept the Director's application for the relevant percentage to be received as Directshares.

6.4 Equity Compensation – Directshare

The Directshare Plan aims to encourage a longer-term perspective and to align the Directors' interests with those of Telstra's shareholders. The shares are allocated to the participating non-executive Director at market price. To preserve non-executive Director independence and impartiality, there are no performance hurdles in respect of this Plan.

6.5 Retirement Benefits

Superannuation contributions, in accordance with legislation and Telstra policy, are included as part of each Director's total remuneration. Directors may choose to increase the proportion of their remuneration taken as superannuation, subject to legislative requirements.

Telstra does not provide retirement benefits for Directors, other than superannuation contributions.

Table 7.2 provides full details of non-executive Director remuneration for fiscal 2010.

7. Remuneration Tables and Data

7.1 Senior Executives remuneration (main table)

		Short Term Employee Benefits				Post-employment Benefits	Termination Benefits	Other Long Term Benefits	Equity Settled Share-based Payments		
Name	Year	Salary and Fees (1) ($)	Short Term Incentives (cash) (2) ($)	Non-monetary Benefits (3) ($)	Other (4) ($)	Superannuation (5) ($)	Termination Benefits ($)	Accrued Long Service Leave ($)	Short Term Incentive Shares (6) ($)	Accounting Value of Other Equity (at risk) (7) (8) ($)	Total ($)
David Thodey	**2010**	**1,961,748**	**696,000**	**10,856**	**-**	**38,252**	**-**	**50,000**	**-**	**435,745**	**3,192,601**
	2009	1,196,747	1,040,184	5,136	-	101,718	-	32,462	3,069	1,124,717	3,504,033
Bruce Akhurst	**2010**	**1,041,113**	**179,744**	**10,586**	**-**	**270,887**	**-**	**32,800**	**-**	**390,058**	**1,925,188**
	2009	1,029,937	1,020,274	2,937	-	266,563	-	32,413	7,794	1,212,214	3,572,132
Nerida Caesar	**2010**	**785,539**	**278,400**	**8,296**	**64,000**	**14,461**	**-**	**20,000**	**-**	**130,927**	**1,301,623**
	2009	175,701	87,410	-	-	3,512	-	4,480	-	25,289	296,392
Paul Geason (9)	**2010**	**635,539**	**345,150**	**5,921**	**39,000**	**14,461**	**-**	**16,250**	**-**	**36,429**	**1,092,750**
	2009	-	-	-	-	-	-	-	-	-	-
Glenice Maclellan (10)	**2010**	**380,951**	**55,357**	**3,698**	**-**	**9,271**	**-**	**8,153**	**-**	**(15,041)**	**442,389**
	2009	-	-	-	-	-	-	-	-	-	-
Kate McKenzie (11)	**2010**	**209,900**	**52,054**	**4,985**	**10,140**	**15,442**	**-**	**5,634**	**-**	**(426,313)**	**(128,158)**
	2009	515,363	435,382	719	-	44,129	-	13,987	908	309,717	1,320,205
Justin Milne (12)	**2010**	**622,215**	**165,201**	**5,037**	**-**	**10,737**	**-**	**15,824**	**-**	**411,360**	**1,230,374**
	2009	656,179	382,616	-	-	10,798	-	16,674	1,425	414,950	1,482,642
David Moffatt (13)	**2010**	**572,823**	**-**	**5,890**	**-**	**6,062**	**1,004,949**	**14,472**	**-**	**386,872**	**1,991,068**
	2009	1,350,755	992,110	17,626	-	13,745	-	34,113	3,696	1,249,308	3,661,353
Michael Rocca	**2010**	**958,189**	**420,210**	**11,259**	**1,096,600**	**249,311**	**-**	**30,188**	**-**	**361,084**	**3,126,841**
	2009	397,934	396,986	8,453	1,000,000	105,191	-	12,578	2,548	427,688	2,351,378
Deena Shiff	**2010**	**859,569**	**356,700**	**10,520**	**82,000**	**165,431**	**-**	**25,625**	**-**	**306,951**	**1,806,796**
	2009	846,334	736,360	3,424	-	159,916	-	25,156	4,393	879,356	2,654,939
John Stanhope	**2010**	**1,365,539**	**480,240**	**16,785**	**110,400**	**14,461**	**-**	**34,500**	**-**	**296,481**	**2,318,406**
	2009	1,111,639	936,294	12,111	-	95,861	-	30,188	3,575	872,993	3,062,661
TOTAL KMP	**2010**	**9,393,125**	**3,029,056**	**93,833**	**1,402,140**	**808,776**	**1,004,949**	**253,446**	**-**	**2,314,553**	**18,299,878**
	2009	7,280,589	6,027,616	50,406	1,000,000	801,433	-	202,051	27,408	6,516,232	21,905,735
Geoff Booth (14)	**2010**	**695,389**	**670,159**	**5,082**	**-**	**142,310**	**532,520**	**21,000**	**-**	**(25,719)**	**2,040,741**
	2009	-	-	-	-	-	-	-	-	-	-
TOTAL KMP AND TOP 5 HIGHEST PAID EXECUTIVES	**2010**	**10,088,514**	**3,699,215**	**98,915**	**1,402,140**	**951,086**	**1,537,469**	**274,446**	**-**	**2,288,834**	**20,340,619**
	2009	7,280,589	6,027,616	50,406	1,000,000	801,433	-	202,051	27,408	6,516,232	21,905,735

(1) Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and fringe benefits tax.

(2) Short term incentive relates to performance in fiscal 2009 and fiscal 2010 respectively and is based on actual performance for Telstra and the individual. Where a Senior Executive was not a KMP for the entire fiscal 2010 year, only the portion of the STI relating to the period as KMP for fiscal 2010 is shown.

(3) Includes the benefit of interest-free loans under TESOP97 and TESOP99 (which have not been expensed as they were issued prior to 7 November 2002 and were therefore included in the exemption permitted under AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards"), the value of personal home security services provided by Telstra and the value of the personal use of products and services related to Telstra employment and the value of personal travel costs.

(4) Includes a Customer Satisfaction bonus for Nerida Caesar, Paul Geason, Kate McKenzie, Deena Shiff and John Stanhope. For Michael Rocca, includes a retention payment and a Customer Satisfaction Bonus.

(5) Represents company contributions to superannuation as well as any additional superannuation contribution made through salary sacrifice by executives.

(6) There were no restricted incentive shares provided under the fiscal 2010 and fiscal 2009 STI Incentive share plan. In relation to fiscal 2009, the value shown relates to the Short Term Incentive Shares allocated under the fiscal 2005 STI plan whereby 50 per cent of the STI payment was provided as shares to be distributed over three years at 12 month internals. These shares fully vested in fiscal 2009.

(7) In accordance with AASB 2, the accounting value represents a portion of the fair value of options, performance rights and restricted shares that had not yet fully vested as at the commencement of the financial year. This value includes an assumption that options, performance rights and restricted shares will vest at the end of their vesting period. The amount included as remuneration is not related to, nor indicative of the benefit (if any) that may ultimately be realised by each Senior Executive should the options or performance rights become exercisable or the restricted shares become restricted trust shares. The accounting value includes negative amounts for options, performance rights and restricted shares forfeited or lapsed during the year that failed to satisfy non-market (ie non-TSR) performance targets. Refer to table 7.3 for further information.

(8) As required under accounting standards, accounting expense that was previously recognised as remuneration has been reversed in fiscal 2010 and fiscal 2009. For fiscal 2010, this has occurred for the fiscal 2006, fiscal 2007, fiscal 2008 and fiscal 2009 LTI plans that failed to satisfy non-market (ie non-TSR) performance targets, resulting in equity instruments lapsing. For market based hurdles, (ie TSR) an accounting value is recorded above, however the relevant KMP received no value from those equity instruments that lapsed.

(9) Paul Geason commenced as GMD – Telstra Wholesale on 1 July 2009.

(10) Glenice Maclellan, GMD – Telstra Consumer, commenced as a KMP on 9 November 2009. Prior to this date, Glenice Maclellan was not considered a KMP. As a result, the table above only includes remuneration during her period of service as a KMP.

(11) Kate McKenzie, Chief Marketing Officer, commenced as a KMP on 29 March 2010. Prior to this date, Kate McKenzie was not considered a KMP. As a result, the table above only includes remuneration during her period of service as a KMP.

(12) Justin Milne, former GMD - Telstra Media, qualifies as a KMP for the period 1 July 2009 to 28 March 2010, up to the appointment of Kate McKenzie as Chief Marketing Officer. As a result, the table above only includes remuneration during his period of service as a KMP.

(13) David Moffatt, former GMD – Telstra Consumer, qualifies as a KMP for the period 1 July 2009 up to his date of cessation at 30 November 2009. As a result, the table above only includes remuneration during his period of service as a KMP. Termination benefits for David Moffatt are inclusive of accrued but untaken annual leave and long service leave and other payments related to his termination agreement.

(14) Geoff Booth, GMD – NBN retired from Telstra on 29 June 2010 and is disclosed in this table due to his remuneration for fiscal 2010 placing him in the highest five paid company and group executives. Termination benefits for Geoff Booth are inclusive of accrued but untaken annual and long service leave.

Remuneration Report

7.2 Non-executive Director Remuneration

		Short Term Employee Benefits		Post-employment Benefits	Equity Settled Share-based Payments	
Name	Year	Salary and Fees (1) ($)	Non-monetary Benefits (2) ($)	Superannuation ($)	Directshare (8) ($)	Total ($)
Catherine B Livingstone Chairman	**2010**	**645,539**	**-**	**14,461**	**-**	**660,000**
	2009	241,907	-	23,745	63,958	329,610
Geoffrey A Cousins Director	**2010**	**232,539**	**-**	**14,461**	**-**	**247,000**
	2009	183,855	-	13,745	49,400	247,000
Russell A Higgins (3) Director	**2010**	**206,870**	**-**	**13,732**	**-**	**220,602**
	2009	-	-	-	-	-
Charles Macek (4) Director	**2010**	**69,340**	**-**	**14,724**	**21,016**	**105,080**
	2009	207,803	249	33,797	60,400	302,249
John P Mullen Director (7)	**2010**	**250,647**	**760**	**-**	**-**	**251,407**
	2009	66,000	-	-	154,000	220,000
John M Stewart Director	**2010**	**225,552**	**-**	**37,856**	**-**	**263,408**
	2009	83,397	-	100,000	45,849	229,246
John W Stocker Director	**2010**	**324,164**	**528**	**14,461**	**-**	**339,153**
	2009	200,263	-	13,745	96,740	310,748
Steven M Vamos (5) Director	**2010**	**207,983**	**-**	**18,684**	**-**	**226,667**
	2009	-	-	-	-	-
Peter J Willcox Director (6)	**2010**	**64,845**	**-**	**12,239**	**-**	**77,084**
	2009	154,902	-	87,123	56,400	298,425
John D Zeglis (7) Director	**2010**	**198,019**	**-**	**-**	**28,981**	**227,000**
	2009	181,600	-	-	45,400	227,000
Total	**2010**	**2,425,498**	**1,288**	**140,618**	**49,997**	**2,617,401**
	2009	1,319,727	249	272,155	572,147	2,164,278

(1) Includes fees for membership on Board Committees.
(2) These payments relate to telecommunications and other services and equipment provided to directors to assist them in performing their duties. From time to time, we may also make products and services available to directors without charge to allow them to familiarise themselves with our products and services and with recent technological developments.
(3) Russell Higgins qualifies as a KMP from 15 September 2009. Prior to this date, he was not considered a KMP. As a result, the table above only includes remuneration during his period of service as a KMP.
(4) Charles Macek qualified as a KMP for the period 1 July 2009 to 4 November 2009. As a result, the table above only includes remuneration during his period of service as a KMP.
(5) Steven Vamos qualifies as a KMP from 15 September 2009. Prior to this date, he was not considered a KMP. As a result the table above only includes remuneration during his period of service as a KMP.
(6) Peter Willcox qualified as a KMP for the period 1 July 2009 to 27 August 2009. As a result, the table above only includes remuneration during his period of service as a KMP.
(7) John Mullen and John Zeglis had no Superannuation component due to their respective off shore and non-resident status for superannuation purposes.
(8) These payments have been calculated based on current elections by Directors. As Directshares are allocated retrospectively on a 6 monthly basis, the actual amount may differ where, as a result of changes to the remuneration structure as explained in section 6.2, Directors amend their election. Where this occurs the actual amount allocated to Directshares will be proportionally adjusted and a corresponding change in fees will occur. This would result in no change to the total fees paid to individual Directors.

Remuneration Report

7.3 STI Payments (cash and shares)

Name	Year	Maximum Potential STI ($) (1)	Current Year Grant of STI ($) (2) (3)	% of the Maximum Potential	% Forfeited	Total Grant of STI ($) (4)
David Thodey	**2010**	**3,200,000**	**696,000**	**21.7%**	**78.3%**	**696,000**
	2009	2,097,145	1,040,184	49.6%	50.4%	1,043,253
Bruce Akhurst	**2010**	**2,099,200**	**179,744**	**8.6%**	**91.4%**	**179,744**
	2009	2,099,200	1,020,274	48.6%	51.4%	1,028,068
Nerida Caesar	**2010**	**1,280,000**	**278,400**	**21.7%**	**78.3%**	**278,400**
	2009	159,217	87,410	54.9%	45.1%	87,410
Paul Geason	**2010**	**780,000**	**345,150**	**44.4%**	**55.6%**	**345,150**
	2009	-	-	-	-	-
Glenice Maclellan	**2010**	**228,279**	**55,357**	**24.2%**	**75.8%**	**55,357**
	2009	-	-	-	-	-
Kate McKenzie	**2010**	**270,411**	**52,054**	**19.2%**	**80.8%**	**52,054**
	2009	718,452	435,382	60.6%	39.4%	436,290
Justin Milne	**2010**	**759,542**	**165,201**	**21.7%**	**78.3%**	**165,201**
	2009	798,781	382,616	47.9%	52.1%	384,041
David Moffatt	**2010**	**463,108**	**-**	**0.0%**	**100.0%**	**-**
	2009	2,209,600	992,110	44.9%	55.1%	995,806
Michael Rocca	**2010**	**1,932,000**	**420,210**	**21.7%**	**78.3%**	**420,210**
	2009	793,972	396,986	50.0%	50.0%	399,534
Deena Shiff	**2010**	**1,640,000**	**356,700**	**21.7%**	**78.3%**	**356,700**
	2009	1,640,000	736,360	44.9%	55.1%	740,753
John Stanhope	**2010**	**2,208,000**	**480,240**	**21.7%**	**78.3%**	**480,240**
	2009	1,954,685	936,294	47.9%	52.1%	939,869
Geoff Booth	**2010**	**1,340,318**	**670,159**	**50.0%**	**50.0%**	**670,159**
	2009	-	-	-	-	-

(1) The maximum potential STI refers to the maximum potential STI specific to fiscal 2010 and fiscal 2009 respectively, where the Senior Executive was a KMP, adjusted for any variation in fixed remuneration throughout fiscal 2010 and fiscal 2009 that impacts the maximum potential STI available.

(2) The current year grant of STI is pro rata adjusted to reflect the STI component that relates to the Senior Executive's tenure as a KMP. Accordingly any STI component awarded that relates to a period of time where the Senior Executive was not a KMP is excluded from this table.

(3) The STI for fiscal 2010 and fiscal 2009 was approved by the Board on 12 August 2010 and 13 August 2009 respectively. There were no restricted incentive shares provided under the fiscal 2010 and fiscal 2009 STI plan. For fiscal 2009, this number excludes the fiscal 2005 STI incentive shares that fully vested during fiscal 2009 (refer (4) below).

(4) The fiscal 2009 value shown includes the Short Term Incentive Shares allocated under the fiscal 2005 STI plan whereby 50 per cent of the STI payment was provided as shares to be distributed over three years at 12 month internals. These shares fully vested in fiscal 2009.

Remuneration Report

7.4 Summary of LTI Plans as at 30 June 2010

As at 30 June 2010 the vesting status of all LTI equity plans is as follows:

Plan	Type of Instrument Granted	Performance Period	Result	Future Financial Years in which Grants Vest	Accounting Value Yet to Vest (1)	
					Min ($)	Max ($)
Growthshare 2006	Performance Rights	60% tested on 30/06/2008. 70% (original test of 40% plus 30% retest) tested on 30/06/2010.	20% of the entire plan vested on 30/06/2008. 7% of the entire plan vested on 30/06/2010. A total of 27% of the entire plan vested.	No further testing.	n/a	n/a
Growthshare 2007	Options	2/3rds of the plan had test points at: 30/06/2008 (30%) 30/06/2009 (28.1%) 30/06/2010 (41.9%) The remaining 1/3rd relating to the EBITDA accelerator was tested at 30/06/2010.	(Vesting - subject to TSR gateway) 19.375% of 30% vested subject to TSR gateway. 15.245% of 28.1% vested subject to TSR gateway. 5.791% of 41.9% vested subject to TSR gateway. 0% of the 1/3rd relating to the EBITDA vested. As the TSR gateway was not achieved a total of 0% of the entire Plan vested.	No further testing.	n/a	n/a
Growthshare 2008	Options	1/07/2007 - 30/06/2011 in respect of TSR. 1/07/2008 – 30/06/2011 in respect of ROI.	30% of the plan was tested at 30/06/2009 of which 15% related to the ROI performance measures vested. 30% of the plan was tested at 30/06/2010 of which 0% vested.	Options may vest, subject to Plan performance measures in fiscal 2011.	n/a	n/a
Growthshare 2009	Options Restricted Shares	1/07/2008 – 30/06/2012 1/07/2009 – 30/06/2012	30% of the plan was tested at 30/06/2010 of which 0% vested.	Options and restricted shares may vest subject to plan performance measures in fiscal 2011 and 2012.	n/a nil	n/a 1,483,311
Growthshare 2010	Restricted Shares	1/07/2009 – 30/06/2012	The first and only test point of the plan is 30/06/2012.	Restricted shares that may vest in fiscal 2012 are subject to a further one year restriction period.	nil	1,642,481

(1) The values included in the above table have been calculated by applying option valuation methodologies as described in Note 27 to the financial statements.

Remuneration Report

7.5 Accounting value of all LTI instruments

Name	Year	Accounting Value of LTI Equity Allocations (1) (2) (3)				Accounting Value as a % of Total Remuneration (4)
		Options ($)	Performance rights ($)	Restricted shares	Total ($)	(%)
David Thodey	**2010**	**323,982**	**(154,108)**	**265,871**	**435,745**	**13.6%**
	2009	890,854	36,218	197,645	1,124,717	32.1%
Bruce Akhurst	**2010**	**349,107**	**(166,758)**	**207,709**	**390,058**	**20.3%**
	2009	959,956	39,359	212,899	1,212,214	33.9%
Nerida Caesar	**2010**	**44,313**	**-**	**86,614**	**130,927**	**10.1%**
	2009	17,716	-	7,573	25,289	8.5%
Paul Geason	**2010**	**-**	**-**	**36,429**	**36,429**	**3.3%**
	2009	-	-	-	-	-
Glenice Maclellan	**2010**	**(2,658)**	**-**	**(12,383)**	**(15,041)**	**-**
	2009	-	-	-	-	-
Kate McKenzie	**2010**	**(252,376)**	**(67,917)**	**(106,020)**	**(426,313)**	**-**
	2009	254,923	(1,436)	56,230	309,717	23.5%
Justin Milne	**2010**	**330,975**	**(107,136)**	**187,521**	**411,360**	**33.4%**
	2009	323,554	26,359	65,037	414,950	28.0%
David Moffatt	**2010**	**510,330**	**(217,394)**	**93,936**	**386,872**	**19.4%**
	2009	983,746	41,466	224,096	1,249,308	34.1%
Michael Rocca	**2010**	**317,415**	**(147,496)**	**191,165**	**361,084**	**11.5%**
	2009	317,363	29,801	80,524	427,688	18.2%
Deena Shiff	**2010**	**259,834**	**(115,156)**	**162,273**	**306,951**	**17.0%**
	2009	704,226	8,802	166,328	879,356	33.1%
John Stanhope	**2010**	**251,916**	**(147,038)**	**191,603**	**296,481**	**12.8%**
	2009	685,618	30,621	156,754	872,993	28.5%
Geoff Booth	**2010**	**37,772**	**(143,282)**	**79,791**	**(25,719)**	**-**
	2009	-	-	-	-	-

(1) The value of each instrument is calculated by applying valuation methodologies as described in note 27 to the financial statements and is then amortised over the relevant vesting period. The values included in the table relate to the current year amortised value of all LTI instruments detailed as other equity in the remuneration table 7.1. Please refer to note 27 to the financial statements for details on our employee share plans.

(2) Where a vesting scale is used, the table reflects the maximum achievable allocation.

(3) As required under accounting standards, accounting expense that was previously recognised as remuneration has been reversed in fiscal 2010 and fiscal 2009. For fiscal 2010, this has occurred for the fiscal 2006, fiscal 2007, fiscal 2008 and fiscal 2009 LTI plans that failed to satisfy non-market (ie non-TSR) performance targets, resulting in equity instruments lapsing. For market based hurdles, (ie TSR) an accounting value is recorded above, however the relevant KMP received no value from those equity instruments that lapsed.

(4) Total Remuneration is the sum of short term employee benefits, post employment benefits, termination benefits, other long term benefits and equity settled share based payments as detailed in table 7.1 of this Report.

Remuneration Report

7.6 Number of equity instruments granted and vested during fiscal 2010

Name	Granted or Vested during the period	Options	Performance Rights	Restricted Shares (1)	GMD Incentive Shares	Incentive Shares (2)
David Thodey	Granted	-	-	1,098,900	-	-
	Vested	252,174	9,525	-	162,602	-
Bruce Akhurst	Granted	-	-	720,878	-	-
	Vested	271,739	10,307	-	132,181	-
Nerida Caesar	Granted	-	-	439,560	-	-
	Vested	37,565	-	-	-	-
Paul Geason	Granted	-	-	214,286	-	-
	Vested	27,392	-	-	-	-
Glenice Maclellan	Granted	-	-	83,850	-	-
	Vested	-	-	-	-	-
Kate McKenzie	Granted	-	-	-	-	-
	Vested	-	3,891	-	72,021	-
Justin Milne	Granted	-	-	281,044	-	-
	Vested	101,085	-	-	80,851	-
David Moffatt	Granted	-	-	-	-	1,982
	Vested	285,867	-	-	187,447	-
Michael Rocca	Granted	-	-	663,462	-	-
	Vested	249,999	9,095	-	169,078	-
Deena Shiff	Granted	-	-	563,186	-	-
	Vested	206,522	7,029	-	133,929	-
John Stanhope	Granted	-	-	758,242	-	-
	Vested	199,998	9,078	-	165,291	-
Geoff Booth	Granted	-	-	276,922	-	-
	Vested	104,348	3,068	-	-	-

(1) Restricted shares granted during the year relate to the annual LTI plan for fiscal 2010.
(2) Incentive Shares granted during the year relate to the STI plan for fiscal 2005 where dividends paid during the year have been reinvested under the dividend reinvestment plan. There was no allocation of incentive shares made under the fiscal 2010 STI plan.

Remuneration Report

7.7 Value of options, performance rights and restricted shares granted, exercised and lapsed / forfeited in fiscal 2010

Name	Granted during period ($) (1)	Exercised ($)	Value Foregone ($) (2) (3)
David Thodey	1,989,009	-	(516,708)
Bruce Akhurst	1,304,789	-	(557,965)
Nerida Caesar	795,604	-	(35,808)
Paul Geason	387,858	-	(26,685)
Glenice Maclellan	151,769	-	(29,833)
Kate McKenzie	-	-	(204,688)
Justin Milne	508,690	-	-
David Moffatt	-	-	-
Michael Rocca	1,200,866	-	(502,066)
Deena Shiff	1,019,367	-	(405,994)
John Stanhope	1,372,418	-	(454,334)
Geoff Booth	501,229	-	(98,531)

(1) The grant date of the fiscal 2010 LTI plan was 22 February 2010. The fair value of the RTSR and FCF ROI restricted shares granted in fiscal 2010 is $1.02 and $2.60 respectively. The fair value reflects the valuation approach required by the applicable accounting standard including a Monte Carlo simulation option pricing model as explained in note 27 to the financial statements.

(2) The value of equity instruments that have lapsed during the year represents the value foregone and is calculated at the date the equity instrument lapsed using an option pricing model and after deducting any exercise price that would have been payable.

(3) As the options granted under the fiscal 2007 and fiscal 2008 LTI plans had an exercise price that was greater than the market price of Telstra shares (ie were out of the money), there was no value associated with these lapsed options.

7.8 KMP Contract Details

The key terms and conditions of service contracts for current Senior Executives are summarised below. There are no individual contracts for services with our non-executive directors.

Name	Term of Agreement	Fixed Remuneration at end of fiscal 2010	Additional Conditions	Notice Period (1)	Termination Payment (2)
David Thodey	Ongoing	$2,000,000	(3)	6 months	12 months
Bruce Akhurst	Ongoing	$1,312,000	Nil	6 months	12 months
Nerida Caesar	Ongoing	$800,000	Nil	6 months	12 months
Paul Geason	Ongoing	$650,000	Nil	6 months	12 months
Kate McKenzie	Ongoing	$875,000	Nil	6 months	12 months
Michael Rocca	Ongoing	$1,207,500	Nil	6 months	12 months
Deena Shiff	Ongoing	$1,025,000	Nil	6 months	12 months
John Stanhope	Ongoing	$1,380,000	Nil	6 months	12 months

(1) Upon notice being given Telstra can require the executive to work through the notice period or terminate employment immediately by providing payment in lieu of notice.

(2) Payment is calculated on fixed remuneration as at date of termination. There will be no payment if termination is a result of serious misconduct or redundancy in cases where Telstra's redundancy policy overrides the termination provisions of the service contract.

(3) In relation to David Thodey's contract, if the Board forms the view that the CEO is not performing to the standard required of a CEO, Telstra may terminate by providing four months written.

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial Report

as at 30 June 2010

Page Number

Financial Statements

Income Statement . . . 78
Statement of Comprehensive Income . . . 79
Statement of Financial Position . . . 80
Statement of Cash Flows . . . 81
Statement of Changes in Equity . . . 82

Notes to the Financial Statements

Note 1 - Basis of preparation . . . 83
Note 2 - Summary of accounting policies . . . 84
Note 3 - Earnings per share . . . 98
Note 4 - Dividends . . . 99
Note 5 - Segment information . . . 100
Note 6 - Income . . . 104
Note 7 - Expenses . . . 105
Note 8 - Remuneration of auditors . . . 107
Note 9 - Income taxes . . . 108
Note 10 - Trade and other receivables . . . 110
Note 11 - Inventories . . . 112
Note 12 - Non current assets held for sale . . . 113
Note 13 - Property, plant and equipment . . . 114
Note 14 - Intangible assets . . . 116
Note 15 - Trade and other payables . . . 119
Note 16 - Provisions . . . 120
Note 17 - Capital management and financial instruments . . . 122
Note 18 - Financial risk management . . . 130
Note 19 - Share capital . . . 146
Note 20 - Notes to the statement of cash flows . . . 147
Note 21 - Impairment . . . 151
Note 22 - Expenditure commitments . . . 153
Note 23 - Contingent liabilities and contingent assets . . . 155
Note 24 - Post employment benefits . . . 156
Note 25 - Investments in controlled entities . . . 161
Note 26 - Investments in jointly controlled and associated entities . . . 169
Note 27 - Employee share plans . . . 174
Note 28 - Key management personnel compensation . . . 188
Note 29 - Related party disclosures . . . 196
Note 30 - Parent entity information . . . 199
Note 31 - Events after balance date . . . 201

Directors' Declaration . . . 202

Independent Audit Report . . . 203

Income Statement

for the year ended 30 June 2010

	Note	Telstra Group Year ended 30 June 2010 $m	2009 $m
Income			
Revenue (excluding finance income)	6	**24,917**	25,507
Other income	6	**112**	107
		25,029	25,614
Expenses			
Labour		**3,707**	4,131
Goods and services purchased		**5,360**	5,313
Other expenses	7	**5,117**	5,225
		14,184	14,669
Share of net profit from jointly controlled and associated entities	26	**(2)**	(3)
		14,182	14,666
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**10,847**	10,948
Depreciation and amortisation	7	**4,346**	4,390
Earnings before interest and income tax expense (EBIT)		**6,501**	6,558
Finance income	6	**67**	67
Finance costs	7	**1,030**	967
Net finance costs		**963**	900
Profit before income tax expense		**5,538**	5,658
Income tax expense	9	**1,598**	1,582
Profit for the year		**3,940**	4,076
Attributable to:			
Equity holders of Telstra Entity		**3,883**	4,073
Non-controlling interests		**57**	3
		3,940	4,076

Earnings per share (cents per share)		**cents**	cents
Basic	3	**31.4**	32.9
Diluted	3	**31.3**	32.9

The notes following the financial statements form part of the financial report.

Statement of Comprehensive Income

for the year ended 30 June 2010

	Note	Telstra Group Year ended 30 June 2010 $m	2009 $m
Profit for the year			
Attributable to equity holders of Telstra Entity		**3,883**	4,073
Attributable to non-controlling interests		**57**	3
		3,940	4,076
Foreign currency translation reserve			
Reserves recognised on equity accounting our interest in jointly controlled and associated entities	26	**(1)**	1
Translation of financial statements of non-Australian controlled entities		**(88)**	177
Income tax on movements in the foreign currency translation reserve		**(9)**	36
		(98)	214
Cashflow hedging reserve			
Changes in fair value of cashflow hedges		**(1,041)**	120
Changes in fair value transferred to other expenses		**793**	(285)
Changes in fair value transferred to goods and services purchased		**129**	(27)
Changes in fair value transferred to finance costs		**199**	104
Changes in fair value transferred to property, plant and equipment		**12**	(14)
Income tax on movements in the cashflow hedging reserve		**(28)**	31
		64	(71)
Retained profits			
Actuarial loss on defined benefit plans	24	**(157)**	(546)
Income tax on actuarial loss on defined benefit plans		**46**	163
		(111)	(383)
Non-controlling interests			
Translation of financial statements of non-Australian controlled entities		**(9)**	30
Actuarial loss on defined benefit plans	24	**(1)**	(7)
		(10)	23
Total other comprehensive income		**(155)**	(217)
Total comprehensive income for the year		**3,785**	3,859
Total comprehensive income attributable to equity holders of Telstra Entity		**3,738**	3,833
Total comprehensive income attributable to non-controlling interests		**47**	26

The notes following the financial statements form part of the financial report.

Statement of Financial Position

as at 30 June 2010

	Note	Telstra Group As at 30 June 2010 $m	2009 $m
Current assets			
Cash and cash equivalents	20	**1,936**	1,381
Trade and other receivables	10	**3,981**	4,039
Inventories	11	**295**	239
Derivative financial assets	17(d)	**173**	128
Current tax receivables		**3**	101
Prepayments		**218**	304
Assets classified as held for sale	12	**579**	-
Total current assets		**7,185**	6,192
Non current assets			
Trade and other receivables	10	**217**	163
Inventories	11	**17**	18
Investments - accounted for using the equity method	26	**17**	16
Investments - other		**1**	-
Property, plant and equipment	13	**22,894**	23,895
Intangible assets	14	**8,028**	8,416
Derivative financial assets	17(d)	**592**	1,073
Non-current tax receivables		**321**	172
Deferred tax assets	9	**3**	9
Defined benefit assets	24	**7**	8
Total non current assets		**32,097**	33,770
Total assets		**39,282**	39,962
Current liabilities			
Trade and other payables	15	**3,843**	3,734
Provisions	16	**389**	495
Borrowings	17(a)	**2,540**	1,979
Derivative financial liabilities	17(d)	**384**	111
Current tax payables		**335**	262
Revenue received in advance		**1,102**	1,171
Liabilities classified as held for sale	12	**89**	-
Total current liabilities		**8,682**	7,752
Non current liabilities			
Other payables	15	**248**	245
Provisions	16	**727**	761
Borrowings	17(a)	**12,370**	15,344
Derivative financial liabilities	17(d)	**1,518**	819
Deferred tax liabilities	9	**1,927**	1,593
Defined benefit liability	24	**464**	414
Revenue received in advance		**338**	353
Total non current liabilities		**17,592**	19,529
Total liabilities		**26,274**	27,281
Net assets		**13,008**	12,681
Equity			
Share capital	19	**5,590**	5,576
Reserves		**(312)**	(273)
Retained profits		**7,418**	7,115
Equity available to Telstra Entity shareholders		**12,696**	12,418
Non-controlling interests		**312**	263
Total equity		**13,008**	12,681

The notes following the financial statements form part of the financial report.

Statement of Cash Flows

for the year ended 30 June 2010

	Note	Telstra Group Year ended 30 June 2010 $m	2009 $m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		**27,128**	27,719
Payments to suppliers and to employees (inclusive of GST)		**(16,218)**	(17,074)
Net cash generated by operations		**10,910**	10,645
Income taxes paid		**(1,219)**	(1,647)
Net cash provided by operating activities	20	**9,691**	8,998
Cash flows from investing activities			
Payments for:			
- property, plant and equipment		**(2,718)**	(3,263)
- intangible assets		**(877)**	(1,531)
Capital expenditure (before investments)		**(3,595)**	(4,794)
- shares in controlled entities (net of cash acquired)	20	**(95)**	(240)
- payments for other investments		**-**	(1)
Total capital expenditure		**(3,690)**	(5,035)
Proceeds from:			
- sale of property, plant and equipment		**24**	22
- sale of intangible assets		**2**	2
- sale of shares in controlled entities (net of cash disposed)	20	**11**	197
- sale of business		**1**	-
Proceeds from finance lease principal amounts		**66**	55
Loans to jointly controlled and associated entities		**-**	(4)
Interest received		**66**	65
Settlement of hedges in net investments		**(6)**	(35)
Distributions received from FOXTEL Partnership	6	**60**	100
Net cash used in investing activities		**(3,466)**	(4,633)
Operating cash flows less investing cash flows		**6,225**	4,365
Cash flows from financing activities			
Proceeds from borrowings		**1,777**	3,118
Repayment of borrowings		**(2,676)**	(2,288)
Repayment of finance lease principal amounts		**(55)**	(36)
Staff repayments of share loans		**9**	11
Finance costs paid		**(1,042)**	(1,221)
Dividends paid to equity holders of Telstra Entity	4	**(3,474)**	(3,474)
Dividends paid to non-controlling interests		**(20)**	(43)
Net cash used in financing activities		**(5,481)**	(3,933)
Net increase in cash and cash equivalents		**744**	432
Cash and cash equivalents at the beginning of the year		**1,381**	899
Effects of exchange rate changes on cash and cash equivalents		**(20)**	50
Cash and cash equivalents at the end of the year	20	**2,105**	1,381

The notes following the financial statements form part of the financial report.

Statement of Changes in Equity

for the year ended 30 June 2010

Telstra Group

		Reserves						
	Share capital $m	Foreign currency translation (i) $m	Cashflow hedging (ii) $m	Consolidation fair value (iii) $m	General reserve (iv) $m	Retained profits $m	Non-controlling interests $m	Total $m
Balance at 1 July 2008	5,534	(598)	164	20	4	6,893	228	12,245
Profit for the year	-	-	-	-	-	4,073	3	4,076
Other comprehensive income	-	214	(71)	-	-	(383)	23	(217)
Total comprehensive income for the year	-	214	(71)	-	-	3,690	26	3,859
Dividends	-	-	-	-	-	(3,474)	(39)	(3,513)
Non-controlling interests on acquisitions	-	-	-	-	-	-	48	48
Transfers to retained profits	-	-	-	(6)	-	6	-	-
Amounts repaid on share loans provided to employees	11	-	-	-	-	-	-	11
Prior year labour expense settled in equity	8	-	-	-	-	-	-	8
Share-based payments	23	-	-	-	-	-	-	23
Balance at 30 June 2009	5,576	(384)	93	14	4	7,115	263	12,681
Profit for the year	**-**	**-**	**-**	**-**	**-**	**3,883**	**57**	**3,940**
Other comprehensive income	**-**	**(98)**	**64**	**-**	**-**	**(111)**	**(10)**	**(155)**
Total comprehensive income for the year	**-**	**(98)**	**64**	**-**	**-**	**3,772**	**47**	**3,785**
Dividends	**-**	**-**	**-**	**-**	**-**	**(3,474)**	**(10)**	**(3,484)**
Non-controlling interests on acquisitions	**-**	**-**	**-**	**-**	**-**	**-**	**12**	**12**
Transfers to retained profits	**-**	**-**	**-**	**(5)**	**-**	**5**	**-**	**-**
Amounts repaid on share loans provided to employees	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**9**
Share-based payments	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**5**
Balance at 30 June 2010	**5,590**	**(482)**	**157**	**9**	**4**	**7,418**	**312**	**13,008**

(i) The foreign currency translation reserve is used to record exchange differences arising from the conversion of the non-Australian controlled entities' financial statements into Australian dollars. This reserve is also used to record our percentage share of exchange differences arising from equity accounting our non-Australian investments in jointly controlled and associated entities.

(ii) The cash flow hedging reserve represents, where a hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedge instrument. These gains or losses are transferred to the income statement when the hedged item affects income, or in the case of forecast transactions, are included in the measurement of the initial cost of property, plant and equipment or inventory.

(iii) The consolidation fair value reserve represents our share of the fair value adjustments to TelstraClear Limited net assets upon acquisition of a controlling interest. The reserve balance is amortised over the useful life of the underlying revalued assets.

(iv) The general reserve represents other items we have taken directly to equity.

Notes to the Financial Statements

1. Basis of preparation

In this financial report, we, us, our, Telstra and the Telstra Group - all mean Telstra Corporation Limited, an Australian corporation and its controlled entities as a whole. Telstra Entity is the legal entity, Telstra Corporation Limited.

Our financial or fiscal year ends on 30 June. Unless we state differently the following applies:

- year, fiscal year or financial year means the year ended 30 June;
- balance date means the date 30 June; and
- 2010 means fiscal 2010 and similarly for other fiscal years.

The financial report of the Telstra Group for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 12 August 2010.

The principal accounting policies used in preparing the financial report of the Telstra Group are set out in note 2 to our financial statements.

1.1 Basis of preparation of the financial report

This financial report is a general purpose financial report prepared in accordance with the requirements of the Australian Corporations Act 2001 and Accounting Standards applicable in Australia. This financial report also complies with International Financial Reporting Standards and Interpretations published by the International Accounting Standards Board.

Both the functional and presentation currency of the Telstra Entity and its Australian controlled entities is Australian dollars. The functional currency of certain non Australian controlled entities is not Australian dollars. As a result, the results of these entities are translated to Australian dollars for presentation in the Telstra Group financial report.

This financial report is prepared in accordance with historical cost, except for some categories of investments and some financial instruments which are recorded at fair value. Cost is the fair value of the consideration given in exchange for net assets acquired.

In preparing this financial report, we are required to make judgements and estimates that impact:

- income and expenses for the year;
- the reported amounts of assets and liabilities; and
- the disclosure of off balance sheet arrangements, including contingent assets and contingent liabilities.

We continually evaluate our judgements and estimates. We base our judgements and estimates on historical experience, various other assumptions we believe to be reasonable under the circumstances and, where appropriate, practices adopted by international telecommunications companies. Actual results may differ from our estimates.

1.2 Clarification of terminology used in our income statement

Under the requirements of AASB 101: "Presentation of Financial Statements", we must classify all of our expenses (apart from any finance costs and our share of net profit/loss from jointly controlled and associated entities) according to either the nature (type) of the expense or the function (activity to which the expense relates). We have chosen to classify our expenses using the nature classification as it more accurately reflects the type of operations we undertake.

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. We believe that EBITDA is a relevant and useful financial measure used by management to measure the company's operating performance.

Our management uses EBITDA, in combination with other financial measures, primarily to evaluate the company's operating performance before financing costs, income tax and non-cash capital related expenses. In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net income in understanding cash flows generated from operations that are available for payment of income taxes, debt servicing and capital expenditure.

In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

Earnings before interest and income tax expense (EBIT) is a similar measure to EBITDA, but takes into account the effect of depreciation and amortisation.

1.3 Rounding

All dollar amounts in this financial report (except where indicated) have been rounded to the nearest million dollars ($m) for presentation. This has been done in accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/100, dated 10 July 1998, issued under section 341(1) of the Corporations Act 2001. Telstra is an entity to which this class order applies.

Notes to the Financial Statements (continued)

2. Summary of accounting policies

2.1 Changes in accounting policies

The following accounting policy changes occurred during the year ended 30 June 2010.

(a) Borrowing Costs

AASB 123: "Borrowing Costs" became applicable to annual reporting periods beginning on or after 1 January 2009.

The revised AASB 123 now requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

We have applied the revised AASB 123 prospectively for any new capital expenditure on qualifying assets incurred from 1 July 2009. For the year ended 30 June 2010, we have capitalised $73 million of borrowing costs directly attributable to qualifying assets, as disclosed in note 7 to our financial statements.

(b) Business Combinations

AASB 3: "Business Combinations" (revised 2008) and AASB 127: "Consolidated and Separate Financial Statements" (revised 2008) became applicable to annual reporting periods beginning on or after 1 July 2009.

These standards make a number of amendments to the accounting for business combinations and consolidations, including requiring acquisition costs to be expensed, the clarification of the accounting treatment for changes in ownership interests and the fair value measurement of cash contingent consideration in the statement of financial position at acquisition date, with subsequent changes reflected in the income statement.

These accounting standards have been applied prospectively to acquisitions completed on or after 1 July 2009, as disclosed in note 20 to our financial statements.

(c) Financial Instrument disclosures

AASB 2009-2: "Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments" became applicable to Telstra on 1 July 2009.

AASB 2009-2 requires enhanced disclosures about fair value measurements and liquidity risk and in particular, introduces a three-level hierarchy for making fair value measurements.

These fair value hierachy disclosures are included in note 17 to our financial statements.

In addition to the above changes, the following new accounting standards are applicable for the year ended 30 June 2010:

- AASB 2008-5: "Amendments to Australian Accounting Standards arising from the Annual Improvements Process";
- AASB 2008-6: "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process";
- AASB 2009-4: "Amendments to Australian Accounting Standards arising from the Annual Improvements Process";
- AASB 2009-7: "Amendments to Australian Accounting Standards arising from the Annual Improvements Process"; and
- AASB 2008-7: "Amendments to Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate".

These new accounting standards do not have any material impact on our financial results.

2.2 Principles of consolidation

The consolidated financial report includes the assets and liabilities of the Telstra Entity and its controlled entities as a whole as at the end of the year and the consolidated results and cash flows for the year. The effect of all intragroup transactions and balances are eliminated in full from our consolidated financial statements.

An entity is considered to be a controlled entity where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity so as to obtain benefits from its activities.

Where we do not control an entity for the entire year, results and cash flows for those entities are only included from the date on which control commences, or up until the date on which there is a loss of control.

Non-controlling interests in the results and equity of controlled entities are shown separately in our consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position.

We account for the acquisition of our controlled entities using the acquisition method of accounting. This involves recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at the date of acquisition. Any excess of the fair value of acquisition over our interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

The financial statements of controlled entities are prepared for the same reporting period as the Telstra Entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.3 Foreign currency translation

(a) Transactions and balances

Foreign currency transactions are converted into the relevant functional currency at market exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at balance date are converted into the relevant functional currency at market exchange rates at balance date. Any currency translation gains and losses that arise are included in our income statement. Where we enter into a hedge for a specific expenditure commitment or for the construction of an asset, hedging gains and losses are accumulated in other comprehensive income over the period of the hedge and are transferred to the carrying value of the asset upon completion, or included in the income statement at the same time as the discharge of the expenditure commitment.

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Telstra Corporation Limited.

(b) Translation of financial reports of foreign operations that have a functional currency that is not Australian dollars

Our operations include subsidiaries, associates, and jointly controlled entities, the activities and operations of which are in an economic environment where the functional currency is not Australian dollars. The financial statements of these entities are translated to Australian dollars (our presentation currency) using the following method:

- assets and liabilities are translated into Australian dollars using market exchange rates at balance date;
- equity at the date of investment is translated into Australian dollars at the exchange rate current at that date. Movements post-acquisition (other than retained profits/accumulated losses) are translated at the exchange rates current at the dates of those movements;
- income statements are translated into Australian dollars at average exchange rates for the year, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction; and
- currency translation gains and losses are recorded in other comprehensive income.

Refer to note 18 for details regarding our accounting policy for derivative financial instruments and foreign currency monetary items that are used to hedge our net investment in entities which have a functional currency not in Australian dollars.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, bank deposits, bills of exchange and promissory notes with an original maturity date not greater than three months.

Bank deposits are recorded at amounts to be received. Bills of exchange and promissory notes are classified as 'available-for-sale' financial assets and are held at fair value. The carrying amount of these assets approximates their fair value due to the short term to maturity.

2.5 Trade and other receivables

Trade and other receivables are considered financial assets. They are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest method. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

An allowance for doubtful debts is raised to reduce the carrying amount of trade receivables, based on a review of outstanding amounts at balance date. Bad debts specifically provided for in previous years are eliminated against the allowance for doubtful debts. In all other cases, bad debts are eliminated directly against the carrying amount and written off as an expense in the income statement.

2.6 Inventories

Our finished goods include goods available for sale, and material and spare parts to be used in constructing and maintaining the telecommunications network. We value inventories at the lower of cost and net realisable value.

For the majority of inventory items we assign cost using the weighted average cost basis. For materials used in the production of directories the 'first in first out' basis is used for assigning cost.

Net realisable value of items expected to be sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs incurred in marketing, selling and distribution. It approximates fair value less costs to sell.

Net realisable value of items expected to be consumed, for example used in the construction of another asset, is the net value expected to be earned through future use.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.7 Construction contracts

(a) Valuation

We record construction contracts in progress at cost (including any profits recognised) less progress billings and any provision for foreseeable losses. Cost includes:

- both variable and fixed costs directly related to specific contracts;
- amounts which are attributable to contract activity in general and which can be allocated to specific contracts on a reasonable basis; and
- costs expected to be incurred under penalty clauses, warranty provisions and other variances.

Where a significant loss is estimated to be made on completion, a provision for foreseeable losses is brought to account and recorded against the gross amount of construction work in progress.

(b) Recognition of profit

Profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion. Refer to note 2.17(d) for further details.

Profits are recognised when:

- the stage of contract completion can be reliably determined;
- costs to date can be clearly identified; and
- total contract revenues to be received and costs to complete can be reliably estimated.

(c) Disclosure

The construction work in progress balance is recorded in current inventories after deducting progress billings. Where progress billings exceed the balance of construction work in progress, the net amount is shown as a current liability within trade and other payables.

2.8 Investments

(a) Jointly controlled and associated entities

(i) Jointly controlled entities

A jointly controlled entity is a contractual arrangement (in the form of an entity) whereby two or more parties take on an economic activity which is governed by joint control. Joint control involves the contractually agreed sharing of control over an entity where two or more parties must consent to all major decisions. Our interests in jointly controlled entities, including partnerships, are accounted for using the equity method of accounting in the Telstra Group financial statements.

Under the equity method of accounting, we adjust the initial recorded amount of the investment for our share of:

- profits or losses after tax for the year since the date of investment;
- reserve movements since the date of investment;
- unrealised profits or losses;
- dividends or distributions received; and
- deferred profit brought to account.

Where the equity accounted amount of our investment in an entity falls below zero, we suspend the equity method of accounting and record the investment at zero. When this occurs, the equity method of accounting does not recommence until our share of profits and reserves exceeds the cumulative prior years share of losses and reserve reductions.

Where we have long term assets that in substance form part of our investment in equity accounted interests and the equity accounted amount of investment falls below zero, we reduce the value of these long term assets in proportion with our cumulative losses.

(ii) Associated entities

Where we hold an interest in the equity of an entity, generally of between 20% and 50%, and are able to apply significant influence to the decisions of the entity, that entity is an associated entity. Associated entities are accounted for using the equity method of accounting in the Telstra Group financial statements.

(b) Jointly controlled assets

A jointly controlled asset involves the joint control of one or more assets acquired and dedicated for the purpose of a joint venture. The assets are used to obtain benefits for the venturers. Where the asset is significant we record our share of the asset. We record income and expenses based on our percentage ownership interest of the jointly controlled asset.

(c) Listed securities and investments in other corporations

Our investments in listed securities and in other corporations are classified as ‘available-for-sale’ financial assets and are measured at fair value at each reporting date. Fair values are calculated on the following basis:

- for listed securities traded in an organised financial market, we use the current quoted market bid price at balance date; and
- for investments in unlisted entities whose securities are not traded in an organised financial market, we establish fair value by using valuation techniques, including reference to discounted cash flows and fair values of recent arms length transactions involving instruments that are substantially the same.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.8 Investments (continued)

(c) Listed securities and investments in other corporations (continued)

We remeasure the fair value of our investments in listed securities and other corporations at each reporting date. Any gains or losses are recognised in other comprehensive income until we dispose of the investment, or we determine it to be impaired, at which time we transfer all cumulative gains and losses to the income statement. Purchases and sales of investments are recognised on settlement date, being the date on which we receive or deliver an asset.

2.9 Impairment

(a) Non-financial assets

Our tangible and intangible assets (excluding inventories, assets arising from construction contracts, current and deferred tax assets, defined benefit assets and financial assets) are measured using the cost basis and are written down to recoverable amount where their carrying value exceeds recoverable amount.

Assets with an indefinite useful life are not subject to amortisation and are tested on an annual basis for impairment, or where an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Value in use represents the present value of the future amount expected to be recovered through the cash inflows and outflows arising from the asset's continued use and subsequent disposal. We recognise any reduction in the carrying value as an expense in the income statement in the reporting period in which the impairment loss occurs.

In determining value in use, we apply management judgement in establishing forecasts of future operating performance, as well as the selection of growth rates, terminal rates and discount rates. These judgements are applied based on our understanding of historical information and expectations of future performance.

The expected net cash flows included in determining recoverable amounts of our assets are discounted to present values using a market determined, risk adjusted, discount rate. When determining an appropriate discount rate, we use the weighted average cost of capital (WACC) as an initial point of reference, adjusted for specific risks associated with each different category of assets assessed.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit (CGU) to which that asset belongs. Our CGUs are determined according to the lowest level of aggregation for which an active market exists and the assets involved generate largely independent cash inflows.

We apply management judgement to establish our CGUs. We have determined that assets which form part of our ubiquitous telecommunications network work together to generate net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve the delivery of products and services. As a result, we have determined that the ubiquitous telecommunications network is a single CGU. We have referred to this CGU as the Telstra Entity CGU in our financial report.

The Telstra Entity CGU excludes the hybrid fibre coaxial (HFC) cable network, which we consider not to be integrated with the rest of our telecommunications network.

(b) Financial assets

At each reporting date we assess whether there is objective evidence to suggest that any of our financial assets are impaired.

For listed securities and investments in other corporations, we consider the financial asset to be impaired when there has been a significant or prolonged decline in the fair value of the financial asset below its acquisition cost. At this time, all revaluation losses in relation to impaired financial assets that have been accumulated within other comprehensive income are recognised in the income statement.

For financial assets held at cost or amortised cost, we consider the financial asset to be impaired when there is objective evidence as a result of one or more events that the present value of estimated discounted future cash flows is lower than the carrying value. Any impairment losses are recognised immediately in the income statement.

2.10 Property, plant and equipment

(a) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as described in note 2.10 (b). The cost of our constructed property, plant and equipment includes:

- the cost of material and direct labour;
- an appropriate proportion of direct and indirect overheads; and
- where we have an obligation for removal of the asset or restoration of the site, an estimate of the cost of restoration or removal if that cost can be reliably estimated.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The unwinding of this discount is recorded within finance costs.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.10 Property, plant and equipment (continued)

(a) Acquisition (continued)

We account for our assets individually where it is practical and feasible and in line with commercial practice. Where it is not practical and feasible, we account for assets in groups. Group assets are automatically removed from our financial statements on reaching the group life. Therefore, any individual asset may be physically retired before or after the group life is attained. This is the case for certain communication assets as we assess our technologies to be replaced by a certain date.

(b) Depreciation

Items of property, plant and equipment, including buildings and leasehold property, but excluding freehold land, are depreciated on a straight line basis to the income statement over their estimated service lives. We start depreciating assets when they are installed and ready for use

The service lives of our significant items of property, plant and equipment are as follows:

	Telstra Group	
	As at 30 June	
	2010	2009
Property, plant and equipment	**Service life (years)**	Service life (years)
Buildings		
Buildings	**53-55**	55
Fitouts	**10-20**	10-20
Leasehold improvements	**7-40**	8-40
Communication assets		
Network land and buildings	**5-55**	5-55
Network support infrastructure	**4-52**	4-52
Access fixed	**4-30**	4-25
Access mobile	**4-16**	3-16
Content/IP products - core	**5-10**	5-10
Core network - data	**4-8**	4-8
Core network - switch	**5-23**	2-22
Core network - transport	**6-30**	3-30
Specialised premise equipment	**3-8**	3-8
International connect	**6-15**	7-15
Managed service	**9-10**	9-10
Network control layer	**3-11**	4-11
Network product	**3-9**	3-12
Other plant and equipment		
IT equipment	**3-5**	3-5
Motor vehicles/trailer/caravan/huts	**3-15**	3-14
Other plant and equipment	**2-20**	4-20

The service lives and residual values of our assets are reviewed each year. We apply management judgement in determining the service lives of our assets. This assessment includes a comparison with international trends for telecommunication companies, and in relation to communication assets, includes a determination of when the asset may be superseded technologically or made obsolete.

The net effect of the reassessment of service lives for fiscal 2010 was a decrease in our depreciation expense of $124 million (2009: $92 million decrease) for the Telstra Group.

Our major repairs and maintenance expenses relate to maintaining our exchange equipment and the customer access network. We charge the cost of repairs and maintenance, including the cost of replacing minor items which are not substantial improvements, to operating expenses.

2.11 Leased plant and equipment

We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases under which the lessor effectively retains substantially all such risks and benefits.

(a) Telstra as a lessee

Where we acquire non current assets via a finance lease, the lower of the fair value of the asset and the present value of future minimum lease payments is capitalised as equipment under finance lease at the beginning of the lease term. Capitalised lease assets are depreciated on a straight line basis over the shorter of the lease term or the expected useful life of the assets. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

Operating lease payments are charged to the income statement on a straight line basis over the term of the lease.

Where we lease properties, costs of improvements to these properties are capitalised as leasehold improvements and amortised over the shorter of the useful life of the improvements or the term of the lease.

(b) Telstra as a lessor

Where we lease non current assets via a finance lease, a lease receivable equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term is recognised at the beginning of the lease term. Finance lease receipts are allocated between finance income and a reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.12 Intangible assets

Intangible assets are assets that have value, but do not have physical substance. In order to be recognised, an intangible asset must be either separable or arise from contractual or other legal rights.

(a) Goodwill

On the acquisition of investments in controlled entities, jointly controlled and associated entities, when we pay an amount greater than the fair value of the net identifiable assets of the entity, this excess is considered to be goodwill. We calculate the amount of goodwill as at the date of purchasing our ownership interest in the entity.

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. When we acquire a jointly controlled or associated entity, the goodwill amount is included as part of the cost of the investment.

Goodwill is not amortised but is tested for impairment in accordance with note 2.9 on an annual basis or when an indication of impairment exists.

(b) Internally generated intangible assets

Research costs are recorded as an expense as incurred. Development costs are capitalised if the project is technically and commercially feasible, we are able to use or sell the asset, and we have sufficient resources and intent to complete the development.

Software assets

We record direct costs associated with the development of business software for internal use as software assets if the development costs satisfy the criteria for capitalisation described above.

Costs included in software assets developed for internal use are:

- external direct costs of materials and services consumed; and
- payroll and direct payroll-related costs for employees (including contractors) directly associated with the project.

Software assets developed for internal use have a finite life and are amortised on a straight line basis over their useful lives to us. Amortisation commences once the software is ready for use.

(c) Acquired intangible assets

We acquire other intangible assets either as part of a business combination or through separate acquisition. Intangible assets acquired in a business combination are recorded at their fair value at the date of acquisition and recognised separately from goodwill. We apply management judgement to determine the appropriate fair value of identifiable intangible assets.

Intangible assets that are considered to have a finite life are amortised on a straight line basis over the period of expected benefit. Intangible assets that are considered to have an indefinite life are not amortised but tested for impairment in accordance with note 2.9 on an annual basis, or where an indication of impairment exists.

(d) Deferred expenditure

Deferred expenditure mainly includes costs incurred for basic access installation and connection fees for in place and new services, and direct incremental costs of establishing a customer contract.

Significant items of expenditure are deferred to the extent that they are recoverable from future revenue and will contribute to our future earning capacity. Any costs in excess of future revenue are recognised immediately in the income statement. Handset subsidies are considered to be separate units of accounting and expensed as incurred.

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised.

(e) Amortisation

The weighted average amortisation periods of our identifiable intangible assets are as follows:

	Telstra Group	
	As at 30 June	
	2010	2009
Identifiable intangible assets	**Expected benefit (years)**	Expected benefit (years)
Software assets	**7**	8
Patents and trademarks	**9**	19
Mastheads	**5**	indefinite
Licences	**13**	15
Brandnames	**19**	18
Customer bases	**10**	10
Deferred expenditure	**4**	4

From 1 July 2009, mastheads have been assigned a finite life and are amortised from that date.

The service lives of our identifiable intangible assets are reviewed each year. Any reassessment of service lives in a particular year will affect the amortisation expense through to the end of the reassessed useful life for both that current year and future years. The net effect of the reassessment for fiscal 2010 was a decrease in our amortisation expense of $49 million (2009: $110 million decrease) for the Telstra Group.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.12 Intangible assets (continued)

(e) Amortisation (continued)

In relation to acquired intangible assets, we apply management judgement to determine the amortisation period based on the expected useful lives of the respective assets. In some cases, the useful lives of certain acquired intangible assets are supported by external valuation advice on acquisition. In addition, we apply management judgement to assess annually, the indefinite useful life assumption applied to certain acquired intangible assets.

2.13 Trade and other payables

Trade and other payables, including accruals, are recorded when we are required to make future payments as a result of purchases of assets or services. Trade and other payables are carried at amortised cost.

2.14 Provisions

Provisions are recognised when the group has:

- a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events;
- it is probable that a future sacrifice of economic benefits will arise; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(a) Employee benefits

We accrue liabilities for employee benefits to wages and salaries, annual leave and other current employee benefits at their nominal amounts. These are calculated based on remuneration rates expected to be current at the date of settlement and include related on costs.

Certain employees who have been employed by Telstra for at least ten years are entitled to long service leave of three months (or more depending on the actual length of employment), which is included in our employee benefits provision.

We accrue liabilities for other employee benefits not expected to be paid or settled within 12 months of balance date, including long service leave, at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of 10 years, experience of employee departures and periods of service.

We calculate present values using rates based on government guaranteed securities with similar due dates to our liabilities.

We apply management judgement in estimating the following key assumptions used in the calculation of our long service leave provision at reporting date:

- weighted average projected increases in salaries; and
- discount rate.

Refer to note 16 for further details on the key management judgements used in the calculation of our long service leave provision.

(b) Workers' compensation

We self insure our workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on the risks specific to the liability with similar due dates.

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

(c) Redundancy and restructuring costs

We recognise a provision for redundancy costs when a detailed formal plan for the redundancies has been developed and a valid expectation has been created that the redundancies will be carried out in respect of those employees likely to be affected.

We recognise a provision for restructuring when a detailed formal plan has been approved and we have raised a valid expectation in those affected by the restructuring that the restructuring will be carried out.

2.15 Borrowings

Borrowings are included as non current liabilities except for those with maturities less than twelve months from the balance date, which are classified as current liabilities.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. All other borrowing costs are recognised as an expense in our income statement when incurred.

Our borrowings fall into two categories:

(a) Borrowings in a designated hedging relationship

Our offshore borrowings which are designated as hedged items are subject to either fair value or cash flow hedges. The method by which they are hedged determines their accounting treatment.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.15 Borrowings (continued)

(a) Borrowings in a designated hedging relationship (continued)

Borrowings subject to fair value hedges are recognised initially at fair value. The carrying amount of our borrowings in fair value hedges (to hedge against changes in value due to interest rate or currency movements) is adjusted for fair value movements attributable to the hedged risk. Fair value is calculated using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve which is independently derived and representative of Telstra's cost of borrowing. These borrowings are remeasured each reporting period and the gains or losses are recognised in the income statement along with the associated gains or losses on the hedging instrument.

Borrowings subject to cash flow hedges (to hedge against currency movements) are recognised initially at fair value based on the applicable spot price plus any transaction costs that are directly attributable to the issue of the borrowing. These borrowings are subsequently carried at amortised cost, translated at the applicable spot exchange rate at reporting date. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds is recognised in the income statement over the borrowing period using the effective interest method.

When currency gains or losses on the borrowings are recognised in the income statement, the associated gains or losses on the hedging instrument are also transferred from the cash flow hedging reserve to the income statement.

We use management judgement in determining the appropriate yield curve to use in the valuation, to appropriately designate our hedging relationships and to test for effectiveness.

(b) Borrowings not in a designated hedging relationship

Borrowings not in a designated hedging relationship include offshore loans, Telstra bonds and domestic loans.

All such instruments are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the instruments and are subsequently measured at amortised cost. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

(c) Statement of cash flows presentation

Where our short term borrowings have a maturity period of three months or less, we report the cash receipts and subsequent repayments on a net basis in the statement of cash flows.

2.16 Share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity, net of tax, as a reduction of the share proceeds received.

Where we undertake a share buy-back, contributed equity is reduced in accordance with the structure of the buy-back arrangement. Costs associated with the buy-back, net of tax, are also deducted from contributed equity. We also record the purchase of Telstra Entity shares by our employee share plan trusts as a reduction in share capital.

Share based remuneration associated with our employee share plans is recognised as additional share capital. Non-recourse loans provided to employees to participate in these employee share plans are recorded as a reduction in share capital.

Refer to note 2.21 for further details regarding our accounting for employee share plans.

2.17 Revenue recognition

Our categories of sales revenue are recorded after deducting sales returns, trade allowances, discounts, sales incentives, duties and taxes.

(a) Rendering of services

Revenue from the provision of our telecommunications services includes telephone calls and other services and facilities provided, such as internet and data.

We record revenue earned from:

- telephone calls on completion of the call; and
- other services generally at completion, or on a straight line basis over the period of service provided, unless another method better represents the stage of completion.

Installation and connection fee revenues that are not considered to be separate units of accounting are deferred and recognised over the average estimated customer life. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life in accordance with note 2.12 (d).

In relation to basic access installation and connection revenue, we apply management judgement to determine the estimated customer contract life. Based on our reviews of historical information and customer trends, we have determined that our average estimated customer life is 5 years (2009: 5 years).

(b) Sale of goods

Our revenue from the sale of goods includes revenue from the sale of customer equipment and similar goods. This revenue is recorded on delivery of the goods sold.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.17 Revenue recognition (continued)

(b) Sale of goods (continued)

Generally we record the full gross amount of sales proceeds as revenue, however if we are acting as an agent under a sales arrangement, we record the revenue on a net basis, being the gross amount billed less the amount paid to the supplier. We review the facts and circumstances of each sales arrangement to determine if we are an agent or principal under the sale arrangement.

(c) Rent of network facilities

We earn rent mainly from access to retail and wholesale fixed and mobile networks and from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities. The revenue from providing access to the network is recorded on an accrual basis over the rental period.

(d) Construction contracts

We record construction revenue on a percentage of contract completion basis. The percentage of completion of contracts is calculated based on estimated costs to complete the contract.

Our construction contracts are classified according to their type. There are two types of construction contracts, these being material intensive and short duration. Revenue is recognised on a percentage of completion basis using the appropriate measures as follows:

- for material intensive projects (actual costs/ planned costs) x planned revenue; and
- for short duration projects (which are those that are expected to be completed within a month), revenues and costs are recognised on completion.

(e) Advertising and directory services

Classified advertisements and display advertisements are published on a daily, weekly and monthly basis for which revenues are recognised at the time the advertisement is published.

All of our Yellow Pages and White Pages directory revenues are recognised on delivery of the published directories to customers' premises. Revenue from online directories is recognised over the life of service agreements, which is on average one year. Voice directory revenues are recognised at the time of providing the service to customers.

(f) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(g) Interest revenue

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

(h) Revenue arrangements with multiple deliverables

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of accounting is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

We allocate the consideration from the revenue arrangement to its separate units based on the relative fair values of each unit. If the fair value of the delivered item is not available, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item. The revenue allocated to each unit is then recognised in accordance with our revenue recognition policies described above.

2.18 Taxation

(a) Income taxes

Our income tax expense represents the sum of current tax and deferred tax. Current tax is calculated on accounting profit after allowing for non-taxable and non-deductible items based on the amount expected to be paid to taxation authorities on taxable profit for the period. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Both our current tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

Our current and deferred tax is recognised as an expense in the income statement, except when it relates to items directly debited or credited to other comprehensive income or equity, in which case our current and deferred tax is also recognised directly in other comprehensive income or equity.

We apply the balance sheet liability method for calculating our deferred tax. Deferred tax is the expected tax payable or recoverable on all taxable and deductible temporary differences determined with reference to the tax bases of assets and liabilities and their carrying amount for financial reporting purposes as at the reporting date.

We generally recognise deferred tax liabilities for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither our accounting profit or taxable income at the time of the transaction.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.18 Taxation (continued)

(a) Income taxes (continued)

In respect of our investments in subsidiaries, jointly controlled and associated entities, we recognise deferred tax liabilities for all taxable temporary differences, except where we are able to control the timing of our temporary difference reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses and tax credits, can be utilised.

The carrying amount of our deferred tax assets is reviewed at each reporting date. We reduce the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised. At each reporting date, we subsequently reassess our unrecognised deferred tax assets to determine whether it has become probable that future taxable profit will allow this deferred tax asset to be recovered.

The Telstra Entity and its Australian resident wholly owned entities have formed a tax consolidated group. The Telstra Entity is the head entity and recognises, in addition to its transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all entities in the tax consolidated group. The Telstra Entity and the entities in the tax consolidated group account for their own current tax expense and deferred tax amounts arising from temporary differences. These tax amounts are measured as if each entity in the tax consolidated group continues to be a separate taxpayer.

We offset deferred tax assets and deferred tax liabilities in the statement of financial position where they relate to income taxes levied by the same taxation authority and to the extent that we intend to settle our current tax assets and liabilities on a net basis. Our deferred tax assets and deferred tax liabilities are netted within the tax consolidated group, as these deferred tax balances relate to the same taxation authority. We do not net deferred tax balances between controlled entities, apart from those within the tax consolidated group.

(b) Goods and Services Tax (GST) (including other value added taxes)

We record our revenue, expenses and assets net of any applicable goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST where we have either included GST in our price charged to customers or a supplier has included GST in their price charged to us. The net amount of GST due, but not paid, to the ATO is included under payables.

2.19 Earnings per share

Basic earnings per share is determined by dividing the profit attributable to ordinary shareholders after tax, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders after tax by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of the instruments in the Telstra Growthshare Trust and the Telstra Employee Share Ownership Plans).

2.20 Post-employment benefits

(a) Defined contribution plans

Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements. We do not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

Contributions to defined contribution plans are recorded as an expense in the income statement as the contributions become payable. We recognise a liability when we are required to make future payments as a result of employee services provided.

(b) Defined benefit plans

We currently sponsor a number of post-employment benefit plans. As these plans have elements of both defined contribution and defined benefit, these hybrid plans are treated as defined benefit plans.

At reporting date, where the fair value of the plan assets is less than the present value of the defined benefit obligations, the net deficit is recognised as a liability. If the fair value of the plan assets exceeds the present value of the defined benefit obligations, the net surplus is recognised as an asset. We recognise the asset as we have the ability to control this surplus to generate future funds that are available to us in the form of reductions in future contributions or as a cash refund.

Fair value is used to determine the value of the plan assets at reporting date and is calculated by reference to the net market values of the plan assets.

Defined benefit obligations are based on the expected future payments required to settle the obligations arising from current and past employee services. This obligation is influenced by many factors, including final salaries and employee turnover. We engage qualified actuaries to calculate the present value of the defined benefit obligations. These obligations are measured gross of tax.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.20 Post-employment benefits (continued)

(b) Defined benefit plans (continued)

The actuaries use the projected unit credit method to determine the present value of the defined benefit obligations of each plan. This method determines each year of service as giving rise to an additional unit of benefit entitlement. Each unit is measured separately to calculate the final obligation. The present value is determined by discounting the estimated future cash outflows using rates based on government guaranteed securities with similar due dates to these expected cash flows.

We recognise all our defined benefit costs in the income statement with the exception of actuarial gains and losses that are recognised directly in other comprehensive income via retained profits. Components of defined benefit costs include current and past service cost, interest cost and expected return on assets. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Actuarial gains and losses are based on an actuarial valuation of each defined benefit plan at reporting date. Actuarial gains and losses represent the differences between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions.

We apply judgement in estimating the following key assumptions used in the calculation of our defined benefit liabilities and assets at reporting date:

- discount rates;
- salary inflation rate; and
- expected return on plan assets.

The estimates applied in the actuarial calculation have a significant impact on the reported amount of our defined benefit plan liabilities and assets. If the estimates prove to be incorrect, the carrying value may be materially impacted in the next reporting period. Additional volatility may also potentially be recorded in retained profits to reflect differences between actuarial assumptions of future outcomes applied at the current reporting date and the actual outcome in the next annual reporting period.

Refer to note 24 for details on the key estimates used in the calculation of our defined benefit liabilities and assets.

2.21 Employee share plans

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We consolidate the results, position and cash flows of TESOP97 and TESOP99.

The Telstra Growthshare Trust (Growthshare) was established to allocate equity based instruments as required. Current equity based instruments include options, performance rights, restricted shares, incentive shares, directshares and ownshares. Options and restricted shares are subject to performance hurdles. Incentive shares are subject to a specified period of service. Performance rights can be subject to performance hurdles or a specified period of service.

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare. We also include the results, position and cash flows of Growthshare.

We recognise an expense for all share based remuneration determined with reference to the fair value at grant date of the equity instruments issued. The fair value of our equity instruments is calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The fair value is charged against profit over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

2.22 Derivative financial instruments

We use derivative financial instruments such as forward exchange contracts, cross currency swaps and interest rate swaps to hedge risks associated with foreign currency and interest rate fluctuations.

The use of hedging instruments is governed by the guidelines set by our Board of Directors.

Derivative financial instruments are included as non current assets or liabilities except for those with maturities less than twelve months from the balance date, which are classified as current assets or liabilities.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value. The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where we hold derivative financial instruments that are not designated as hedges, they are categorised as 'held for trading' financial instruments. All of our derivative financial instruments are stated at fair value.

Derivative assets are derecognised when the rights to receive cash flows from the derivative assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

The carrying value of our cross currency and interest rate swaps refers to the fair value of our receivable or payable under the swap contract. We do not offset the receivable or payable with the underlying financial asset or financial liability being hedged, as the transactions are usually with different counterparties and are not generally settled on a net basis.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.22 Derivative financial instruments (continued)

Where we have a legally recognised right to set off the derivative asset and the derivative liability, and we intend to settle on a net basis or simultaneously, we record this position on a net basis in our statement of financial position. Where we enter into master netting arrangements relating to a number of financial instruments, have a legal right of set off, and intend to do so, we also include this position on a net basis in our statement of financial position.

Our derivative instruments that are held to hedge exposures can be classified into three different types, depending on the reason we are holding them - fair value hedges, cash flow hedges and hedges of net investment in foreign operations.

Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. Ineffectiveness may result in significant volatility in the income statement. For all of our hedging instruments, any gains or losses on remeasuring to fair value any portion of the instrument not considered to be effective are recognised directly in the income statement in the period in which they occur.

We formally designate and document at the inception of a transaction the relationship between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

Purchases and sales of derivative instruments are recognised on the date on which we commit to purchase or sell an asset.

(a) Fair value hedges

We use fair value hedges to mitigate the risk of changes in the fair value of our foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period.

Where a fair value hedge qualifies for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised within finance costs in the income statement, together with gains and losses in relation to the hedged item where those gains or losses relate to the risks intended to be hedged.

(b) Cash flow hedges

We use cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period. Cash flow hedges are used for our foreign currency borrowings and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies.

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedging instrument are recognised directly in other comprehensive income in the cash flow hedging reserve until such time as the hedged item affects profit or loss, then the gains or losses are transferred to the income statement. However, in our hedges of forecast transactions, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the measurement of the initial cost or carrying amount of the asset. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement. The application of hedge accounting will create some volatility in equity reserve balances.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in other comprehensive income at that time remain in other comprehensive income and are recognised when the hedged item is ultimately recognised in the income statement.

If a forecast hedged transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that were reported in other comprehensive income are transferred immediately to the income statement.

(c) Hedges of a net investment in a foreign operation

Our investments in foreign operations are exposed to foreign currency risk, which arises when we translate the net assets of our foreign investments from their functional currency to Australian dollars. We hedge our net investments to mitigate exposure to this risk by using forward foreign currency contracts, cross currency swaps and/or promissory notes in the relevant currency of the investment.

Gains and losses on remeasurement of our derivative instruments designated as hedges of foreign investments are recognised in the foreign currency translation reserve in equity to the extent they are considered to be effective.

The cumulative amount of the recognised gains or losses included in equity are transferred to the income statement when the foreign operation is sold.

(d) Derivatives and borrowings that are de-designated from fair value hedge relationships or not in a designated hedging relationship

Derivatives associated with borrowings de-designated from fair value hedge relationships or not in a designated hedge relationship for hedge accounting purposes are classified as ‘held for trading’.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.22 Derivative financial instruments (continued)

(d) Derivatives and borrowings that are de-designated from fair value hedge relationships or not in a designated hedging relationship (continued)

For borrowings de-designated from fair value hedge relationships, from the date of de-designation the derivatives continue to be recognised at fair value and the borrowings are accounted for on an amortised cost basis consistent with a revised effective interest rate as at the de-designation date. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates and the discounting impact of future cash flows on the derivatives. The cumulative gains or losses previously recognised from the re-measurement of these borrowings as at the date of de-designation are unwound and amortised to the income statement over the remaining life of the borrowing. This amortisation expense is also included within finance costs.

For borrowings not in designated hedge relationships for hedge accounting purposes, the derivatives are recognised at fair value and the borrowings are accounted for on an amortised cost basis. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates and the discounting impact of future cash flows on the derivatives.

Any gains or losses on remeasuring to fair value forward exchange contracts that are not in a designated hedging relationship are recognised directly in the income statement in the period in which they occur within other expense or other income.

(e) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

2.23 Recently issued accounting standards to be applied in future reporting periods

The accounting standards and interpretations that have not been early adopted for the year ended 30 June 2010, but will be applicable to the Telstra Group in future reporting periods, are detailed below. Apart from these standards and interpretations, we have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to Telstra.

(a) Financial Instruments - Classification and Measurement

AASB 9: "Financial Instruments" was issued by the AASB in December 2009 and is applicable to annual reporting periods beginning on or after 1 January 2013, with early adoption permitted. A related omnibus standard AASB 2009-11: "Amendments to Australian Accounting Standards arising from AASB 9" makes a number of amendments to other accounting standards as a result of AASB 9 and must be adopted at the same time.

AASB 9 introduces new classification and measurement models for financial assets. For financial assets, there are only two models, amortised cost and fair value. To be classified and measured at amortised cost, the asset must satisfy the business model test and have contractual cash flow characteristics. All other instruments are to be classified and measured at fair value.

The accounting for financial liabilities will continue to be performed under AASB 139: "Financial Instruments - Classification and Measurement" until further amendments are made by the International Accounting Standards Board. We are currently assessing the impact of these standards.

(b) Related Party Disclosures

AASB 124: "Related Party Disclosures" was revised in December 2009 to clarify the definition of a related party, mainly in the areas of subsidiary and associate relationships and in addition dual joint ventures. It also removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. This new standard is applicable from 1 July 2011 and it is anticipated to have no impact on Telstra.

(c) Prepayments of Minimum Funding Requirements

The AASB has issued AASB 2009-14: "Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement".

AASB 2009-14 provides further guidance on the treatment of certain prepayments of future contributions when there is a minimum funding requirement and how these prepayments impact the calculation of the defined benefit asset. This amendment will take effect on the 1 July 2011 and we are currently assessing the impact on Telstra.

Notes to the Financial Statements (continued)

2. Summary of accounting policies (continued)

2.23 Recently issued accounting standards to be applied in future reporting periods (continued)

(d) Other

In addition to the above recently issued accounting standards that are applicable in future years, we note the following new accounting standards and interpretations that are applicable in future years:

- AASB 2009-5: “Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process”;
- AASB 2009-8: “Amendments to Australian Accounting Standards - Group Cash-Settled Share-Based Payment Transactions”;
- AASB 2009-10: “Amendments to Australian Accounting Standards - Classification of Rights Issues”;
- AASB 2009-12: “Amendments to Australian Accounting Standards”;
- AASB Interpretation 19: “Extinguishing Financial Liabilities with Equity Instruments”;
- AASB 2009-13: “Amendments to Australian Accounting Standards arising from Interpretation 19”; and
- AASB 2010-1: “Amendments to Australian Accounting Standards - Limited Exemption from Comparative AASB 7 Disclosures for First-Time Adopters”.

We do not expect these accounting standards and interpretations to materially impact our financial results upon adoption.

Notes to the Financial Statements (continued)

3. Earnings per share

	Telstra Group Year ended 30 June	
	2010 cents	2009 cents
Basic earnings per share	**31.4**	32.9
Diluted earnings per share	**31.3**	32.9
	$m	$m
Earnings used in the calculation of basic and diluted earnings per share		
Profit for the year attributable to equity holders of Telstra Entity	**3,883**	4,073
	Number of shares (millions)	
Weighted average number of ordinary shares		
Weighted average number of ordinary shares on issue	**12,443**	12,443
Effect of shares held by employee share plan trusts (a)(b)	**(70)**	(75)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**12,373**	12,368
Effect of dilutive employee share instruments (c)	**24**	28
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**12,397**	12,396

(a) In order to underpin the equity instruments issued under the Growthshare plan, the Telstra Growthshare Trust purchases Telstra shares on the market. These shares are not considered to be outstanding for the purposes of computing basic and diluted earnings per share.

(b) Share options issued under the Telstra Employee Share Ownership Plan Trust I (TESOP97) and II (TESOP99) are not considered outstanding for the purposes of computing basic earnings per share.

(c) In fiscal 2010 and fiscal 2009, the following equity instruments are considered dilutive to earnings per share:

- incentive shares granted under the Growthshare short term incentive scheme;
- certain performance rights granted under the Growthshare long term incentive scheme; and
- share options issued under TESOP97.

In fiscal 2010 and fiscal 2009, the following equity instruments are not considered dilutive to earnings per share:

- certain performance rights, restricted shares and options issued under Growthshare; and
- share options issued under TESOP99.

Refer to note 27 for details regarding equity instruments issued under the Growthshare and TESOP share plans.

Notes to the Financial Statements (continued)

4. Dividends

	Telstra Entity Year ended 30 June	
	2010 $m	2009 $m
Dividends paid		
Previous year final dividend paid	**1,737**	1,737
Interim dividend paid	**1,737**	1,737
Total dividends paid	**3,474**	3,474
Dividends paid per ordinary share	**cents**	cents
Previous year final dividend paid	**14.0**	14.0
Interim dividend paid	**14.0**	14.0
Total dividends paid	**28.0**	28.0

Our dividends paid are fully franked at a tax rate of 30%.

Our dividends per share to be paid in respect of each fiscal year are detailed below:

	Telstra Entity Year ended 30 June	
	2010 cents	2009 cents
Dividends per ordinary share		
Interim dividend	**14.0**	14.0
Final dividend (a)	**14.0**	14.0
Total dividends.	**28.0**	28.0

	Telstra Entity Year ended 30 June	
	2010 $m	2009 $m
The combined amount of exempting and franking credits available to us for the next fiscal year are:		
Franking account balance.	**(138)**	178
Exempting account (b)	**24**	24
Franking credits that will arise from the payment of income tax payable as at 30 June (c)	**320**	220
Franking debits that will arise from the receipt of current tax receivable as at 30 June (c).	**-**	(100)
Exempting credits that we may be prevented from distributing in the next fiscal year.	**(24)**	(24)
	182	298
Franking debits that will arise on the payment of dividends resolved after 30 June (d)		
Final dividend	**745**	745

(a) As our final dividend for fiscal 2010 was not determined or publicly recommended by the Board as at 30 June 2010, no provision for dividend has been raised in the statement of financial position. Our final dividend has been reported as an event subsequent to balance date. Refer to note 31 for further details.

(b) In relation to our exempting account, there are statutory restrictions placed on the distribution of credits from this account. As a result of these restrictions, it is unlikely that we will be able to distribute our exempting credits.

(c) Franking credits/debits that will arise from the payment/receipt of income tax are expressed at the 30% tax rate on a tax paid basis.

(d) We believe the franking credits that will arise on tax instalments expected to be paid during fiscal 2011 will be sufficient to cover the franking debits arising from our final dividend.

Notes to the Financial Statements (continued)

5. Segment information

Operating segments

We report our segment information on the same basis as our internal management reporting structure, which drives how our company is organised and managed.

During the year ended 30 June 2010, the following changes were made to our operating segments:

- To further drive Telstra's network and technology excellence, Telstra Networks and Services and Information Technology, formerly two segments, are now combined into one segment, Telstra Operations;
- A new segment, Chief Marketing Office, was formed to focus on product and marketing innovation. As a result, the previous Product Management group, Telstra Media and Strategic Marketing segments have now been incorporated into this segment; and
- The creation of a new business unit "Telstra International", which takes geographic and operational responsibility for CSL New World (CSL NW) and international managed network and hosting operations under the Telstra International brand with points of presence around the world. While CSL NW remains as a separately reportable segment, the rest of the International portfolio, except our China businesses, have been grouped under a new segment called "Other International Unit". From 1 July 2010, our China businesses, except SouFun, now also form part of the Telstra International operating segment.

Segment results are reported according to the internal management reporting structure at balance date. Segment comparatives are restated to reflect the changes described above as well as any organisational changes which have occurred since the prior reporting period to present a like-for-like view. As KAZ Group Pty Limited was sold on 30 April 2009, we have excluded it from the Telstra Enterprise and Government segment prior period results for internal management reporting.

The Telstra Group is organised into the following operating segments for internal management reporting purposes:

Telstra Consumer (TC) is responsible for providing the full range of telecommunication products, services and solutions (across Mobiles, Fixed and Wireless Broadband, Telephony and PayTV) to consumer customers through inbound and outbound call centres, Telstra Shops (owned and licensed), Telstra Dealers and online.

Telstra Business (TB) is responsible for the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to small to medium enterprises.

Telstra Enterprise and Government (TE&G) is responsible for the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to enterprise and government customers.

Telstra Operations (TOps) is responsible for:
- leading the identification, analysis, validation, development and implementation of product, technology and information technology strategies for both the network infrastructure and customer solutions of our Company;
- overall planning, design, specification of standards, commissioning and decommissioning of our communication networks;
- construction of infrastructure for our Company's fixed, mobile, Internet protocol (IP) and data networks;
- operation, assurance and maintenance, including activation and restoration, of these networks; and
- supply and delivery of information technology solutions to support our products, services, customer support functions and our internal needs.

Telstra Wholesale (TW) is responsible for the provision of a wide range of telecommunication products and services delivered over our networks and associated support systems to non-Telstra branded carriers, carriage service providers and Internet service providers.

Sensis is responsible for:
- the management and growth of the directories and advertising business, including print, voice and digital directories, digital mapping and satellite navigation, digital display advertising and business information services. This includes the management of leading information brands including Yellow Pages®, White Pages®, Whereis®, Citysearch®, 1234 and Mediasmart; and
- the management and growth of offshore businesses which include:
  - the provision of China's largest online real estate, home furnishings and home improvements portal through the investment in SouFun;
  - the provision of automotive and digital device internet businesses in China through the investment in Norstar Media and Autohome/PCPop;
  - the provision of mobile value added services in China through ChinaM and Sharp Point; and
  - the provision of China's leading mobile advertising services through the investment in Dotad.

CSL New World (CSL NW), our 76.4% owned subsidiary in Hong Kong is responsible for providing full mobile services including handset sales, voice and data products to the Hong Kong market.

TelstraClear (TClear), our New Zealand subsidiary is responsible for providing full telecommunications services to the New Zealand market.

Telstra Country Wide (TCW) is responsible for the local management and control of providing telecommunication products, services and solutions to all consumer customers, except those in Sydney and Melbourne, and small business, enterprise and some government customers outside the mainland state capital cities, in outer metropolitan areas, and in Tasmania and the Northern Territory. From 1 July 2010, TCW is part of the TC operating segment.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Operating segments (continued)

Chief Marketing Office is responsible for:
- knowing our customers and being the brand guardian;
- product and marketing innovation and the management of all product, pricing and promotion across Telstra; and
- contributing to Telstra's profitable growth and corporate reputation, by managing Telstra's product development and life cycle management, driving growth in Telstra's digital content assets, including Bigpond® and Trading Post, developing profitable pricing strategy, maintaining good industry analyst relations, creating award-winning marketing campaigns, and developing valuable sponsorships and awards program.

Telstra Cable is responsible for:
- the management of our investment in the FOXTEL partnerships;
- the development of new business opportunities between Telstra and FOXTEL; and
- the hybrid fibre coaxial (HFC) cable network.

Other International Unit is responsible for the provision of global communication solutions to multi-national corporations through our interests in the United Kingdom, Asia and North America.

Corporate areas include:
- Legal Services - provides legal services across the Company;
- Public Policy and Communications - responsible for managing our relationships and positioning with key groups such as our customers, the media, governments, community groups and staff. It also has responsibility for regulatory positioning and negotiation;
- Finance and Administration - encompasses the functions of corporate planning, accounting and administration, credit management, billing, treasury, risk management and assurance, investor relations and procurement. It also includes providing financial support to all business units and financial management of the majority of the Telstra Entity fixed assets (including network assets);
- The Telstra Board and the Office of the Company Secretary;
- Human Resources - encompasses talent management, organisational development, human resource operations, health, safety and environment, as well as workplace relations and remuneration;
- The Office of the CEO; and
- Corporate Strategy & Customer Experience - responsible for developing the strategies, identifying the opportunities and driving change that improves the customer experience and delivering Telstra-wide productivity improvements.

In our segment financial results, the "All Other" category consists of various business units that do not qualify as reportable segments in their own right. These include:
- Telstra Country Wide;
- Chief Marketing Office (new);
- Telstra Cable;
- Other International Unit; and
- our Corporate areas.

Revenue for the "All Other" segment relates primarily to our revenue earned by Telstra Cable from providing access to our HFC network and other services to FOXTEL. The Asset Accounting Group is the main contributor to the segment result for this segment, which is primarily depreciation and amortisation charges as well as impairment of property, plant and equipment and software.

Segment results

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on their "underlying EBIT contribution" to the Telstra Group. EBIT contribution excludes the effects of all inter-segment balances and transactions. As such, only transactions external to the Telstra Group are reported. Furthermore, certain items of income and expense are excluded from the segment results to show a measure of underlying performance. These items are separately disclosed in the reconciliation of total reportable segments to Telstra Group reported EBIT and profit before income tax expense in the financial statements.

Certain items of income and expense are recorded by our corporate areas, rather than being allocated to each segment. These items include the following:

- the Telstra Entity fixed assets (including network assets) are managed centrally. The resulting depreciation and amortisation is also recorded centrally;
- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy. Instead our reportable segments record these amounts upfront;
- the majority of redundancy expenses for the Telstra Entity; and
- information technology costs for the Telstra Entity.

In addition, the following narrative further explains how some items are allocated and managed, and as a result how they are reflected in our segment results:

- sales revenue associated with mobile handsets for TC, TB and TE&G are mainly allocated to the TC segment along with the associated goods and services purchased. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC, TB and TE&G depending on the type of customer serviced;
- revenue derived from Chief Marketing Office internet products and its related segment assets are recorded in the customer facing business segments of TC, TB and TE&G. Certain distribution costs in relation to these products are recognised in these three business segments;
- TOps recognise certain expenses in relation to the installation and running of the broadband cable network;
- the domestic promotion and advertising expense for Telstra Entity is recorded centrally in Chief Marketing Office; and
- revenue derived from our TCW customers is recorded in our TC, TB and TE&G segments. Direct costs associated with this revenue is also recorded in TC, TB and TE&G.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Telstra Group

Year ended 30 June 2010	TC $m	TB $m	TE&G $m	TOps $m	TW $m	Sensis $m	CSL NW $m	TClear $m	All Other $m	Total $m
Revenue from external customers for operating segments (a)	**10,219**	**3,825**	**4,236**	**74**	**2,320**	**2,260**	**771**	**529**	**420**	**24,654**
Other non-operating segment revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**203**	**203**
Other income	**56**	**11**	**1**	**6**	**-**	**2**	**3**	**-**	**33**	**112**
Total income	**10,275**	**3,836**	**4,237**	**80**	**2,320**	**2,262**	**774**	**529**	**656**	**24,969**
Labour expenses	**444**	**182**	**304**	**1,308**	**69**	**460**	**70**	**92**	**778**	**3,707**
Goods and services purchased	**2,702**	**749**	**555**	**231**	**96**	**226**	**319**	**255**	**227**	**5,360**
Other expenses	**987**	**154**	**82**	**2,112**	**16**	**346**	**168**	**78**	**1,007**	**4,950**
Share of equity accounted profits	**-**	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**
Depreciation and amortisation	**-**	**-**	**17**	**74**	**-**	**117**	**96**	**118**	**3,924**	**4,346**
EBIT contribution	**6,142**	**2,751**	**3,281**	**(3,645)**	**2,139**	**1,113**	**121**	**(14)**	**(5,280)**	**6,608**

Telstra Group

Year ended 30 June 2009	TC $m	TB $m	TE&G $m	TOps $m	TW $m	Sensis $m	CSL NW $m	TClear $m	All Other $m	Total $m
Revenue from external customers for operating segments (a)(b)	10,269	3,789	4,170	77	2,383	2,300	989	547	486	25,010
Other non-operating segment revenue	-	-	-	-	-	-	-	-	170	170
Other income	56	10	(1)	7	-	1	-	-	33	106
Total income	10,325	3,799	4,169	84	2,383	2,301	989	547	689	25,286
Labour expenses	441	191	311	1,359	67	509	85	95	936	3,994
Goods and services purchased	2,514	694	495	236	81	207	466	264	295	5,252
Other expenses	973	147	88	2,252	20	390	199	80	1,062	5,211
Share of equity accounted (profits)/ losses	-	-	(4)	-	-	-	-	-	1	(3)
Depreciation and amortisation	-	-	18	71	-	128	342	121	3,702	4,382
EBIT contribution	6,397	2,767	3,261	(3,834)	2,215	1,067	(103)	(13)	(5,307)	6,450

A reconciliation of EBIT contribution for reportable segments to Telstra Group reported EBIT and profit before income tax expense is provided below:

	Note	Telstra Group Year ended 30 June 2010 $m	2009 $m
EBIT contribution for reportable segments		**11,888**	11,757
All other		**(5,280)**	(5,307)
Total all segments		**6,608**	6,450
Amounts excluded from underlying results:			
- distribution from FOXTEL Partnership (a)	6	**60**	100
- impairment in value of goodwill (c)	7	**(168)**	-
- impairment in value of investments	7	**-**	(4)
- reversal of impairment in value of investments	7	**1**	6
- EBIT contribution from KAZ Group Pty Limited		**-**	5
- other		**-**	1
- **Telstra Group EBIT (reported)**		**6,501**	6,558
- Net finance costs		**(963)**	(900)
- **Telstra Group profit before income tax expense (reported)**		**5,538**	5,658

(a) The $60 million (2009: $100 million) distribution received from FOXTEL has been recorded as revenue in the income statement, but excluded from reportable segment revenue.

(b) $227 million related to KAZ Group Pty Limited (disposed in fiscal 2009) has been excluded from TE&G segment revenue in prior year.

(c) The impairment of goodwill relates to CSL New World.

Notes to the Financial Statements (continued)

5. Segment information (continued)

	Telstra Group Year ended 30 June	
	2010 $m	2009 $m
Information about our geographic operations (d)		
Revenue from external customers		
Australian customers	**22,969**	23,328
International customers	**1,948**	2,179
	24,917	25,507
Carrying amount of non current assets (e)		
Located in Australia	**28,010**	28,855
Located in international countries	**3,485**	3,825
	31,495	32,680

(d) Our geographical operations are split between our Australian and international operations. Our international operations include CSL New World (Hong Kong), TelstraClear (New Zealand), the SouFun, Norstar Media, Autohome/PCPop, ChinaM, Sharp Point and Dotad businesses in China which are part of our Sensis segment, and our international business, including Telstra Europe (UK), that serves multi-national customers in the "All Other" segment. No individual geographical area forms a significant part of our operations apart from our Australian operations.

(e) The carrying amount of our segment non current assets excludes derivative assets, defined benefit assets and deferred tax assets.

		Telstra Group Year ended 30 June	
	Note	**2010 $m**	2009 $m
Information about our products and services			
PSTN products		**5,833**	6,337
Fixed internet		**2,144**	2,160
ISDN products		**905**	942
Other fixed revenue		**1,202**	1,221
Mobiles		**7,317**	6,878
IP and data access		**1,772**	1,742
Business services and applications		**936**	1,115
Offshore content and online content		**144**	70
Advertising and directories		**2,165**	2,259
CSL New World		**770**	989
TelstraClear		**529**	547
Other offshore services revenue		**293**	390
Pay TV bundling		**511**	467
Other sales revenue (f)		**292**	254
Other revenue (g)	6	**104**	136
Total revenue	6	**24,917**	25,507

(f) Other sales revenue includes $84 million relating to HFC cable usage (2009: $76 million).

(g) Other revenue primarily consists of distributions from our FOXTEL Partnership and rental income.

Notes to the Financial Statements (continued)

6. Income

	Note	Telstra Group Year ended 30 June 2010 $m	2009 $m
Sales revenue			
Rendering of services		**11,864**	12,574
Sale of goods		**1,223**	1,159
Rent of network facilities and access		**9,328**	9,149
Construction contracts		**233**	230
Advertising and directory services		**2,165**	2,259
		24,813	25,371
Other revenue (excluding finance income)			
Distribution from FOXTEL Partnership	29	**60**	100
Rent from property		**44**	36
		104	136
Total revenue (excluding finance income)		**24,917**	25,507
Other income			
Net gain on disposal of non current assets (i)		**2**	-
Other miscellaneous income		**110**	107
		112	107
Total income (excluding finance income)		**25,029**	25,614
Finance income			
Interest on cash and cash equivalents	17	**57**	57
Interest on finance lease receivable		**10**	10
		67	67
Total income		**25,096**	25,681

(i) Non current assets includes property, plant and equipment, intangibles and investments.

Notes to the Financial Statements (continued)

7. Expenses

	Note	Telstra Group Year ended 30 June 2010 $m	2009 $m
Labour			
Included in our labour expenses are the following:			
Employee redundancy		**128**	219
Share based payments	27	**5**	23
Defined benefit plan expense	24	**249**	229
Cost of goods sold		**2,076**	1,896
Other expenses			
Impairment losses:			
- impairment in value of inventories		**16**	18
- impairment in value of trade and other receivables		**439**	339
- impairment in value of investments (i)		**-**	4
- impairment in value of property, plant and equipment	13	**40**	23
- impairment in value of intangibles	14	**2**	19
- impairment in value of goodwill (ii)	14	**168**	-
		665	403
Reversal of impairment losses:			
- reversal of impairment in value of trade and other receivables	10	**(71)**	(50)
- reversal of impairment in value of investments		**(1)**	(6)
		(72)	(56)
Rental expense on operating leases		**565**	614
Net foreign currency translation (gains)/losses		**(1)**	16
Service contracts and other agreements		**2,275**	2,389
Promotion and advertising		**349**	379
General and administration		**930**	1,038
Other operating expenses		**406**	442
		5,117	5,225
Depreciation of property, plant and equipment	13	**3,440**	3,624
Amortisation of intangible assets		**906**	766
		4,346	4,390
Finance costs			
Interest on borrowings	17	**1,071**	1,208
Unwinding of discount on liabilities recognised at present value		**21**	23
Loss/(gain) on fair value hedges - effective (iii)		**26**	(61)
Loss/(gain) on cash flow hedges - ineffective		**5**	(1)
Gain on transactions not in a designated hedge relationship/de-designated from fair value hedge relationships (iv)		**(36)**	(222)
Other		**16**	20
		1,103	967
Less: interest on borrowings capitalised		**(73)**	-
		1,030	967
Research and development expenses		**9**	8

Notes to the Financial Statements (continued)

7. Expenses (continued)

(i) In prior years, we recognised impairment losses relating to the value of our investments in jointly controlled and associated entities, and other entities based on the value in use calculation.

(ii) We have recognised an impairment loss of $168 million relating to impairment of goodwill in CSL New World. Refer to note 21 for further details regarding impairment.

(iii) We use our cross currency and interest rate swaps as fair value hedges to convert our foreign currency borrowings into Australian dollar floating rate borrowings.

In the current year, we have seen our borrowing margins contract reflecting an improvement in financial markets, resulting in a partial reversal of previously recognised gains represented by the $26 million unrealised loss for the current year (2009: gain of $61 million). In addition to the contraction in Telstra's borrowing margins, the following factors have also contributed to the net revaluation loss of $26 million:

- an increase in Australian base market rates as at 30 June valuation date;
- a reduction in the number of future interest flows as we approach maturity of the financial instrument; and
- discount factor unwinding as the time to maturity shortens.

It is important to note that in general it is our intention to hold our borrowings and associated derivative instruments to maturity. Accordingly, unrealised revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and will progressively unwind to nil at maturity.

Refer to note 18 for further details regarding our hedging strategies.

(iv) A combination of the following factors has resulted in a net unrealised gain of $36 million (2009: gain of $222 million) associated with financial instruments that are either not in a designated hedge relationship or were previously designated in a hedge relationship and no longer qualify for hedge accounting:

- the valuation impacts described at (iii) above for fair value hedges;
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value); and
- a net loss of $21 million for the amortisation impact of unwinding previously recognised gains on those borrowings that were de-designated from hedge relationships.

Notwithstanding that these borrowings and the related derivative instruments do not satisfy the requirements for hedge accounting, they are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

Notes to the Financial Statements (continued)

8. Remuneration of auditors

	Telstra Group Year ended 30 June	
	2010 $m	2009 $m
Audit fees		
Ernst & Young has charged the following amounts for auditing and reviewing the financial reports	**8.521**	6.672
Other services		
In addition to auditing and reviewing the financial reports, other services were provided by Ernst & Young in their own right as follows:		
Audit related (a)	**1.064**	2.708
Tax (b)	**0.277**	0.129
Other services (c)	**0.129**	1.389
Total other services provided	**1.470**	4.226

Other services

We have processes in place to maintain the independence of the external auditor, including the level of expenditure on non-audit services. Ernst & Young (EY) also has specific internal processes in place to ensure auditor independence.

Fees earned by EY for non-audit services are capped at a maximum of 1.0 times the total audit and audit related fees.

The Audit Committee approve the recurring audit and non-audit fees. The provision of additional audit and non-audit services by EY must be approved by the Chief Financial Officer, if not covered by the Audit Committee approval, subject to confirmation by both management and EY that the provision of these services does not compromise auditor independence. All EY engagements approved by the Chief Financial Officer are reported to the Audit Committee at the next meeting.

(a) Audit related fees charged by EY are for services that are reasonably related to the performance of the audit or review of our financial statements and other assurance engagements. These services include our regulatory audit, additional control assessments around our transformation program, various accounting advice and additional audit services arising on the acquisition of newly acquired controlled entities.

(b) Tax fees charged by EY mainly relate to licence fee and technical services in relation to our tax return software.

(c) Other services relate to all additional services performed by EY, other than those disclosed as auditing and reviewing the financial reports, audit related and tax. These services include various reviews and non assurance services across the Group.

Notes to the Financial Statements (continued)

9. Income taxes

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Major components of income tax expense		
Current tax expense	**1,182**	1,334
Deferred tax resulting from the origination and reversal of temporary differences	**369**	283
Under/(over) provision of tax in prior years	**47**	(35)
	1,598	1,582
Notional income tax expense on profit differs from actual income tax expense recorded as follows:		
Profit before income tax expense	**5,538**	5,658
Notional income tax expense calculated at the Australian tax rate of 30%:	**1,661**	1,697
Which is adjusted by the tax effect of:		
Effect of different rates of tax on overseas income	**(36)**	12
Non assessable and non deductible items	**74**	(92)
Amended assessments	**(148)**	-
Under/(over) provision of tax in prior years	**47**	(35)
Income tax expense on profit	**1,598**	1,582
Income tax recognised directly in other comprehensive income or equity during the year	**(9)**	(230)

	Telstra Group As at 30 June	
	2010 $m	2009 $m
(Deferred tax liability) / deferred tax asset		
Deferred tax items recognised in income statement		
Property, plant and equipment	**(1,686)**	(1,745)
Intangible assets	**(827)**	(571)
Borrowings and derivative financial instruments	**(178)**	(101)
Provision for employee entitlements	**261**	260
Revenue received in advance	**81**	135
Provision for workers' compensation	**50**	51
Allowance for doubtful debts	**67**	70
Defined benefit liability/asset (a)	**160**	99
Trade and other payables	**79**	61
Other provisions	**51**	67
Income tax losses (b)	**74**	84
Other	**(14)**	39
	(1,882)	(1,551)
Deferred tax items recognised in other comprehensive income or equity (c)		
Defined benefit liability/asset (a)	**(20)**	26
Derivative financial instruments	**(22)**	(59)
	(42)	(33)
Net deferred tax liability	**(1,924)**	(1,584)
Our net deferred tax liability is split as follows:		
Deferred tax assets recognised in the statement of financial position	**3**	9
Deferred tax liabilities recognised in the statement of financial position	**(1,927)**	(1,593)
	(1,924)	(1,584)

Notes to the Financial Statements (continued)

9. Income taxes (continued)

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Deferred tax assets not recognised (d)		
Income tax losses	**62**	49
Capital tax losses	**160**	158
Deductible temporary differences	**464**	449
	686	656

(a) Our net deferred tax asset on our defined benefit liability for the Telstra Group is $140 million (2009: $125 million net deferred tax asset).

(b) We have recognised a deferred tax asset for the unused tax losses of our offshore controlled entities to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. We have prepared a management budget in line with our current knowledge of future events to support our view of sufficient future taxable profits being available to offset our unused tax losses.

(c) When the underlying transactions to which our deferred tax relates are recognised directly in other comprehensive income or equity, the temporary differences associated with these adjustments are also recognised directly in other comprehensive income or equity.

(d) Our deferred tax assets not recognised in the statement of financial position may be used in future years if the following criteria are met:

- our controlled entities have sufficient future taxable profit to enable the income tax losses and temporary differences to be offset against that taxable profit;
- we have sufficient future capital gains to be offset against those capital losses;
- we continue to satisfy the conditions required by tax legislation to be able to use the tax losses; and
- there are no future changes in tax legislation that will adversely affect us in using the benefit of the tax losses.

Tax consolidation

The Telstra Entity and its Australian resident wholly owned entities previously elected to form a tax consolidated group. As a consequence of the election to enter tax consolidation, the tax consolidated group is treated as a single entity for income tax purposes.

The Telstra Entity, as the head entity in the tax consolidated group, recognises, in addition to its own transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all entities in the group. However, the Telstra Entity and its Australian resident wholly owned entities account for their own current tax expense and deferred tax amounts.

Upon tax consolidation, the entities within the tax consolidated group entered into a tax sharing agreement. The terms of this agreement specified the methods of allocating any tax liability in the event of default by the Telstra Entity on its group payment obligations and the treatment where a subsidiary member exits the group. The tax liability of the group otherwise remains with the Telstra Entity for tax purposes.

A tax funding arrangement is also in place for entities within the tax consolidated group under which:

- the Telstra Entity compensates its Australian resident wholly owned controlled entities for any current tax receivable assumed;
- the Telstra Entity compensates its Australian resident wholly owned controlled entities for any deferred tax assets relating to unused tax losses and tax credits; and
- Australian resident wholly owned entities compensate the Telstra Entity for any current tax payable assumed.

The funding amounts are based on the amounts recorded in the financial statements of the wholly owned entities.

Amounts receivable of $30 million (2009: $24 million) to the Telstra Entity and amounts payable by the Telstra Entity of $231 million (2009: $186 million) under the tax funding arrangements are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group.

Notes to the Financial Statements (continued)

10. Trade and other receivables

	Note	Telstra Group As at 30 June 2010 $m	2009 $m
Current			
Trade receivables (a)		**3,182**	3,283
Allowance for doubtful debts (a)		**(231)**	(249)
		2,951	3,034
Finance lease receivable (b)		**65**	52
Accrued revenue		**895**	880
Bank deposits with maturity greater than 90 days		**16**	16
Other receivables		**54**	57
		1,030	1,005
		3,981	4,039
Non current			
Trade receivables (a)		**80**	40
Amounts owed by jointly controlled and associated entities	29	**219**	229
Allowance for amounts owed by jointly controlled and associated entities	29	**(182)**	(191)
		37	38
Finance lease receivable (b)		**83**	74
Other receivables		**17**	11
		100	85
		217	163

(a) Trade receivables and allowance for doubtful debts

The ageing of current and non-current trade receivables is detailed below:

	Telstra Group As at 30 June 2010 Gross $m	2010 Allowance $m	2009 Gross $m	2009 Allowance $m
Not past due	**1,497**	**(5)**	1,792	(5)
Past due 0 - 30 days	**1,043**	**(16)**	878	(2)
Past due 31 - 60 days	**195**	**(17)**	187	(11)
Past due 61 - 90 days	**111**	**(24)**	99	(21)
Past due 91 - 120 days	**93**	**(30)**	82	(54)
Past 120 days	**323**	**(139)**	285	(156)
	3,262	**(231)**	3,323	(249)

The movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

	Telstra Group Year ended 30 June 2010 $m	2009 $m
Opening balance	**(249)**	(221)
- additional allowance	**(78)**	(108)
- addition due to acquisition	**-**	(1)
- amounts used	**19**	33
- amounts reversed	**71**	50
- foreign currency exchange differences	**1**	(2)
- transfer of SouFun's balance to assets held for sale	**5**	-
Closing balance	**(231)**	(249)

Notes to the Financial Statements (continued)

10. Trade and other receivables (continued)

Our policy requires customers to pay us in accordance with agreed payment terms. Depending on the customer segment, our settlement terms are generally 14 to 30 days from date of invoice. All credit and recovery risk associated with trade receivables has been provided for in the statement of financial position.

Our trade receivables include our customer deferred debt and White Pages® directory charges. Our customer deferred debt allows eligible post paid mobile customers the opportunity to repay the cost of their mobile handset and approved accessories monthly over 12, 18 or 24 months. The loan is provided interest free to our mobile postpaid customers. Similarly, the White Pages® directory entries can be repaid over 12 months.

Trade receivables have been aged according to their original due date in the above ageing analysis, including where repayment terms for certain long outstanding trade receivables have been renegotiated.

We hold security for a number of trade receivables in the form of guarantees, deeds of undertaking, letters of credit and deposits. During fiscal 2010 and 2009, the securities we called upon were insignificant.

We have used the following basis to assess the allowance loss for trade receivables:

- a statistical approach to apply risk segmentation to the debt, and applying the historical impairment rate to each segment at the end of the reporting period;
- an individual account by account assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

As at 30 June 2010, trade receivables with a carrying amount of $1,539 million (2009: $1,287 million) for the Telstra Group were past due but not impaired.

These trade receivables, along with our trade receivables that are neither past due nor impaired, comprise customers who have a good debt history and are considered recoverable.

(b) Finance lease receivable

We enter into finance leasing arrangements predominantly for communication assets dedicated to solutions management and outsourcing services that we provide to our customers. The average term of finance leases entered into is between 2 to 5 years (2009: 2 to 5 years).

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Amounts receivable under finance leases		
Within 1 year	**72**	58
Within 1 to 5 years	**88**	82
After 5 years	**2**	-
Total minimum lease payments	**162**	140
Less unearned finance income	**(14)**	(14)
Present value of minimum lease payments	**148**	126
Included in the financial statements as:		
Current finance lease receivables	**65**	52
Non current finance lease receivables	**83**	74
	148	126

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is 7% (2009: 6.4%) per annum.

Notes to the Financial Statements (continued)

11. Inventories

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Current		
Finished goods recorded at cost	**171**	145
Finished goods recorded at net realisable value	**55**	61
Total finished goods	**226**	206
Raw materials and stores recorded at cost	**26**	12
Construction contracts (a)	**43**	21
	295	239
Non current		
Finished goods recorded at net realisable value	**17**	18
	17	18
(a) Construction contract disclosures are shown as follows:		
Contract costs incurred and recognised profits	**315**	217
Progress billings	**(272)**	(196)
	43	21

Notes to the Financial Statements (continued)

12. Non current assets held for sale

On 1 December 2009, the shareholders of SouFun decided to commence a process to prepare SouFun for an offer of the shares in that company to the public. At that time, we announced that we intend to sell down our shareholding as part of the process. As at 30 June 2010, we are underway in preparing SouFun for a public offering and we intend to sell down our shareholding in fiscal 2011.

SouFun is included in the Sensis reportable segment in our segment information disclosures in note 5.

In accordance with AASB 5: "Non-current Assets Held for Sale and Discontinued Operations", the carrying value of assets and liabilities of SouFun have been classified as held for sale as follows:

		Telstra Group As at 30 June	
		2010 $m	2009 $m
Current assets			
Cash and cash equivalents	20	**169**	-
Trade and other receivables		**45**	-
Inventories		**8**	
Current tax receivables		**1**	-
Prepayments		**2**	-
Total current assets		**225**	-
Non current assets			
Property, plant and equipment	13	**7**	-
Intangible assets	14	**347**	-
Total non current assets		**354**	-
Total assets		**579**	-
Current liabilities			
Trade and other payables		**38**	-
Provisions		**1**	-
Current tax liabilities		**12**	-
Revenue received in advance		**33**	-
Total current liabilities		**84**	-
Non current liabilities			
Deferred tax liabilities		**5**	-
Total non current liabilities		**5**	-
Total liabilities		**89**	-
Net assets		**490**	-

Notes to the Financial Statements (continued)

13. Property, plant and equipment

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Land and site improvements		
At cost	**41**	29
Buildings (including leasehold improvements)		
At cost	**1,013**	1,049
Accumulated depreciation/impairment	**(546)**	(553)
	467	496
Communication assets (including leasehold improvements)		
At cost	**53,814**	52,616
Accumulated depreciation/impairment	**(32,137)**	(30,154)
	21,677	22,462
Communication assets under finance lease		
At cost	**624**	858
Accumulated depreciation/impairment	**(536)**	(673)
	88	185
Other plant, equipment and motor vehicles		
At cost	**1,584**	1,560
Accumulated depreciation/impairment	**(963)**	(837)
	621	723
Equipment under finance lease		
At cost	**-**	17
Accumulated depreciation/impairment	**-**	(17)
	-	-
Total property, plant and equipment		
At cost	**57,076**	56,129
Accumulated depreciation/impairment	**(34,182)**	(32,234)
	22,894	23,895

Notes to the Financial Statements (continued)

13. Property, plant and equipment (continued)

Telstra Group

	Land and site improve-ments $m	Buildings (a) $m	Comm-unication assets (b) $m	Comm-unication assets under finance lease $m	Other plant, equipment and motor vehicles $m	Total property, plant and equipment (c) $m
Written down value at 1 July 2008	31	484	22,849	231	716	24,311
- additions	-	107	2,863	-	205	3,175
- acquisitions through business combinations	-	-	1	-	1	2
- disposals	(2)	(7)	(33)	-	(3)	(45)
- disposals through sale of a controlled entity	-	-	-	-	(7)	(7)
- impairment losses	-	(4)	(16)	-	(3)	(23)
- depreciation expense	-	(93)	(3,296)	(46)	(189)	(3,624)
- net foreign currency exchange differences	-	5	91	-	-	96
- other	-	4	3	-	3	10
Written down value at 30 June 2009	29	496	22,462	185	723	23,895
- additions	**14**	**56**	**2,326**	**-**	**126**	**2,522**
- acquisitions through business combinations	**-**	**-**	**-**	**-**	**1**	**1**
- disposals	**(2)**	**(5)**	**(8)**	**-**	**(3)**	**(18)**
- disposals through sale of a controlled entity	**-**	**-**	**-**	**-**	**(1)**	**(1)**
- impairment losses	**-**	**(1)**	**(38)**	**-**	**(1)**	**(40)**
- depreciation expense	**-**	**(73)**	**(3,104)**	**(47)**	**(216)**	**(3,440)**
- transfer to assets held for sale	**-**	**-**	**-**	**-**	**(7)**	**(7)**
- net foreign currency exchange differences	**-**	**(6)**	**(12)**	**-**	**(2)**	**(20)**
- other	**-**	**-**	**51**	**(50)**	**1**	**2**
Written down value at 30 June 2010	**41**	**467**	**21,677**	**88**	**621**	**22,894**

(a) Includes leasehold improvements.

(b) Includes certain network land and buildings which are essential to the operation of our communication assets.

(c) Includes $44 million of capitalised borrowing costs directly attributable to qualifying assets. We have applied the revised AASB 123: "Borrowing Costs" prospectively for any new capital expenditure on qualifying assets incurred from 1 July 2009.

Work in progress

As at 30 June 2010, the Telstra Group has property, plant and equipment under construction amounting to $1,293 million (2009: $1,567 million). As these assets are not installed and ready for use, there is no depreciation being charged on these amounts.

Notes to the Financial Statements (continued)

14. Intangible assets

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Goodwill	**1,802**	2,346
Internally generated intangible assets		
Software assets developed for internal use (a)	**6,727**	6,224
Accumulated amortisation	**(2,280)**	(2,022)
	4,447	4,202
Acquired intangible assets		
Mastheads	**337**	337
Accumulated amortisation	**(67)**	-
	270	337
Patents and trademarks	**36**	34
Accumulated amortisation	**(9)**	(8)
	27	26
Licences	**859**	868
Accumulated amortisation	**(414)**	(357)
	445	511
Customer bases	**818**	836
Accumulated amortisation	**(546)**	(522)
	272	314
Brandnames	**232**	265
Accumulated amortisation	**(92)**	(90)
	140	175
Total acquired intangible assets	**1,154**	1,363
Deferred expenditure		
Deferred expenditure	**1,626**	1,015
Accumulated amortisation	**(1,001)**	(510)
	625	505
Total intangible assets		
At cost	**12,437**	11,925
Accumulated amortisation	**(4,409)**	(3,509)
	8,028	8,416

14. Intangible assets (continued)

Telstra Group

	Goodwill $m	Software assets developed $m	Mastheads (b) $m	Patents and trademarks $m	Licences $m	Customer bases $m	Brand names $m	Deferred expenditure (c) (d) $m	Total intangible assets (f) $m
Written down value at 1 July 2008	2,017	3,447	337	26	458	268	176	516	7,245
- additions	-	1,402	-	-	98	-	-	383	1,883
- acquisition through business combinations	228	4	-	-	5	147	-	-	384
- disposals	-	(2)	-	-	-	(2)	-	-	(4)
- disposals through sale of a controlled entity	(127)	(6)	-	-	-	(35)	(2)	-	(170)
- amounts written off	-	-	-	-	-	-	-	(5)	(5)
- impairment losses	-	(19)	-	-	-	-	-	-	(19)
- amortisation expense	-	(633)	-	(1)	(60)	(53)	(17)	(378)	(1,142)
- net foreign currency exchange differences	228	5	-	-	7	(18)	26	-	248
- other	-	4	-	1	3	7	(8)	(11)	(4)
Written down value at 30 June 2009	2,346	4,202	337	26	511	314	175	505	8,416
- additions	**-**	**963**	**-**	**1**	**-**	**-**	**2**	**613**	**1,579**
- acquisition through business combinations	**58**	**2**	**-**	**2**	**1**	**19**	**1**	**-**	**83**
- disposals	**-**	**(5)**	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**
- disposals through sale of a controlled entity	**(1)**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**(2)**
- amounts written off	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**
- impairment losses (e)	**(168)**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**(170)**
- amortisation expense	**-**	**(708)**	**(67)**	**(1)**	**(60)**	**(52)**	**(13)**	**(491)**	**(1,392)**
- net foreign currency exchange differences	**(107)**	**(3)**	**-**	**-**	**(9)**	**(10)**	**(7)**	**-**	**(136)**
- transfer to non current assets held for sale	**(326)**	**-**	**-**	**-**	**-**	**(1)**	**(20)**	**-**	**(347)**
- other	**-**	**(2)**	**-**	**-**	**2**	**2**	**2**	**-**	**4**
Written down value at 30 June 2010	**1,802**	**4,447**	**270**	**27**	**445**	**272**	**140**	**625**	**8,028**

Notes to the Financial Statements (continued)

14. Intangible assets (continued)

(a) As at 30 June 2010, we had software assets under development amounting to $392 million (2009: $1,419 million). As these assets were not installed and ready for use there is no amortisation being charged on the amounts.

(b) From 1 July 2009 the mastheads have been assigned a finite life and are amortised from that date. Refer to note 21 for further details on impairment testing of our mastheads.

(c) During fiscal 2005, we entered into an arrangement with our jointly controlled entity, Reach Ltd (Reach), and our co-shareholder PCCW, whereby Reach's international cable capacity was allocated between us and PCCW under an indefeasible right of use (IRU) agreement, including committed capital expenditure for the period until 2022.

The IRU is amortised over the contract periods for the capacity on the various international cable systems, which range from 5 to 22 years. The IRU is deemed to be an extension of our investment in Reach. The IRU has a carrying value of $nil in the consolidated financial statements due to the recognition of equity accounted losses in Reach.

(d) The majority of the deferred expenditure relates to the deferral of basic access installation costs, which are amortised to goods and services purchased in the income statement.

(e) We have recognised an impairment loss of $168 million relating to impairment of goodwill in CSL New World. Refer to note 21 for further details regarding impairment.

(f) Includes $29 million of capitalised borrowing costs directly attributable to qualifying assets. We have applied the revised AASB 123: “Borrowing Costs” prospectively for any new capital expenditure on qualifying assets incurred from 1 July 2009.

Notes to the Financial Statements (continued)

15. Trade and other payables

	Note	Telstra Group As at 30 June 2010 $m	2009 $m
Current			
Trade creditors (a)		**840**	811
Accrued expenses		**1,586**	1,556
Accrued capital expenditure		**600**	652
Accrued interest		**325**	305
Deferred consideration for capital expenditure		**53**	90
Other creditors (a)		**439**	320
		3,843	3,734
Non current			
Deferred consideration for capital expenditure		**185**	177
Other creditors		**63**	68
		248	245

(a) Trade creditors and other creditors are non interest bearing liabilities. We generally process trade creditor payments once they have reached 30 days from the date of invoice for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments.

Notes to the Financial Statements (continued)

16. Provisions

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Current		
Employee benefits (a)	**296**	298
Workers' compensation (b)	**27**	29
Restructuring (b)	**-**	43
Redundancy (a) (b)	**-**	4
Other (b)	**66**	121
	389	495
Non current		
Employee benefits (a)	**549**	565
Workers' compensation (b)	**138**	140
Restructuring (b)	**-**	6
Other (b)	**40**	50
	727	761
(a) Aggregate employee benefits		
Current provision for employee benefits	**296**	298
Non current provision for employee benefits	**549**	565
Current provision for redundancy	**-**	4
Accrued labour and on-costs (i)	**322**	376
	1,167	1,243

(i) Accrued labour and related on-costs are included within our current trade and other payables (refer to note 15).

Provision for employee benefits consist of amounts for annual leave and long service leave accrued by employees.

Non current employee benefits for long service leave are measured at their present value. The following assumptions were adopted in measuring this amount:

	Telstra Group As at 30 June	
	2010	2009
Weighted average projected increase in salaries, wages and associated on-costs	**4.75%**	4.0%
Discount rates	**5.1%**	5.0%

Notes to the Financial Statements (continued)

16. Provisions (continued)

(b) Movement in provisions, other than employee benefits

	Telstra Group Year ended 30 June	
	2010 $m	2009 $m
Workers' compensation (i)		
Opening balance	**169**	181
- additional provisions	**12**	9
- amount used	**(24)**	(27)
- unwinding of discount on liabilities recognised at present value	**7**	10
- effect of any change in the discount rate	**(1)**	9
- reversal of amounts unused	**(1)**	(13)
- other	**3**	-
Closing balance	**165**	169
Restructuring		
Opening balance	**49**	85
- amount used	**(33)**	(33)
- unwinding of discount on liabilities recognised at present value	**1**	3
- reversal of amounts unused	**(17)**	(6)
Closing balance	**-**	49
Redundancy		
Opening balance	**4**	10
- additional provisions	**4**	10
- amount used	**(5)**	(16)
- reversal of amounts unused	**(3)**	-
Closing balance	**-**	4
Other (ii)		
Opening balance	**171**	192
- additional provisions	**55**	97
- amount used	**(80)**	(104)
- reversal of amounts unused	**(36)**	(9)
- disposal of a controlled entity	**-**	(1)
- foreign currency exchange differences	**(5)**	(4)
- transfer to non current assets held for sale	**(1)**	-
- other	**2**	-
Closing balance	**106**	171

(i) Workers' compensation

We self insure for our workers' compensation liabilities. We provide for our obligations through an assessment of accidents and estimated claims incurred. The provision is based on a semi-annual actuarial review of our workers' compensation liability. Actual compensation paid may vary where accidents and claims incurred vary from those estimated. The timing of these payments may vary, however the average time payments are expected for is 9 years (2009: 9 years).

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation.

(ii) Other

Other provisions include provision for Reach Ltd's committed capital expenditure, provision for lease incentives, provision for restoration costs, provision for onerous leases and other provisions.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments

This note provides information on our capital structure and our underlying economic positions as represented by the carrying values, fair values and contractual face values of our financial instruments.

Section (a) includes details on our gearing, interest expense and interest rate yields.

Section (b) sets out the carrying values, fair values and contractual face values of our financial instruments. The amounts provided in this section are prior to netting offsetting risk positions. Also included in this section is a reconciliation of movements in gross and net debt positions.

Section (c) provides information on our net debt position based on contractual face values and after netting offsetting risks. We consider this view of net debt based on our net contractual obligations to be useful additional information to investors on our underlying economic position, as it portrays our residual risks after hedging and excludes the effect of fair value measurements. This is relevant on the basis that we generally hold our borrowings and associated derivatives to maturity and hence revaluation gains and losses will generally not be realised.

Section (d) provides further details on our derivative financial instruments.

Details regarding interest rate, foreign exchange and liquidity risk are disclosed in note 18.

(a) Capital management

Our objectives when managing capital are to safeguard our ability to continue as a going concern, continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

During 2010, we paid dividends of $3,474 million (2009: $3,474 million). Refer to note 4 for further details.

Agreement with lenders

During the current and prior years there were no defaults or breaches on any of our agreements with our lenders.

Gearing and net debt

We monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial assets (excluding finance lease receivables) and financial liabilities, including derivative financial instruments, less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

Our strategy is to target the net debt gearing ratio within 55 to 75 percent (2009: 55 to 75 percent). In fiscal 2010, our gearing ratio fell below 55% due to strong cash flows which contributed to lower net debt. The gearing ratios and carrying value of our net debt are shown in Table A below:

Table A

		Telstra Group As at 30 June	
	Note	2010 $m	2009 $m
Current			
Short term debt			
Promissory notes		**274**	299
		274	299
Long term debt-current portion			
Telstra bonds		**-**	500
Offshore loans (i)		**2,223**	1,149
Finance leases	22	**43**	31
		2,266	1,680
		2,540	1,979
Non current			
Long term debt			
Telstra bonds and domestic loans (ii)		**3,587**	4,280
Offshore loans (i)		**8,697**	11,000
Finance leases	22	**86**	64
		12,370	15,344
		14,910	17,323
Short term debt		**274**	299
Long term debt (including current portion)		**14,636**	17,024
Total debt		**14,910**	17,323
Net derivative financial instruments (asset)/liability	17(d)	**1,137**	(271)
Bank deposits with maturity greater than 90 days	10	**(16)**	(16)
Gross debt		**16,031**	17,036
Cash and cash equivalents	20	**(2,105)**	(1,381)
Net debt		**13,926**	15,655
Total equity		**13,008**	12,681
Total capital		**26,934**	28,336
		%	%
Gearing ratio		**51.7**	55.2

Net debt included in the table above is based on the carrying values of our financial instruments which are provided in Table D in the following section (b). For interest bearing financial instruments we adopt a 'clean price' whereby the reported balance of our derivative instruments and borrowings excludes accrued interest. Accrued interest is recorded in current 'trade and other receivables' and current 'trade and other payables' in the statement of financial position.

Our borrowings are unsecured, except for finance leases which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us. We have no assets pledged as security for our borrowings. All our borrowings are interest bearing, except for some loans from wholly owned controlled entities. Details of interest rates and maturity profiles are included in note 18.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(a) Capital management (continued)

Gearing and net debt (continued)

We are not subject to any externally imposed capital requirements.

(i) Offshore loans

Offshore loans comprise debt raised overseas. The carrying amounts of offshore loans are denominated in the following currencies.

TABLE B	Telstra Group	
	As at 30 June	
	2010	2009
	$m	$m
Australian dollar	**249**	517
Euro	**7,064**	8,022
United States dollar	**1,697**	1,777
British pound sterling	**352**	408
Japanese yen	**610**	585
New Zealand dollar	**286**	202
Swiss francs	**613**	638
Hong Kong dollar	**49**	-
	10,920	12,149

(ii) Telstra bonds and domestic loans

Telstra bonds currently on issue relate to wholesale investors and mature up until the year 2020. During fiscal 2010 nil (2009: nil) Telstra bonds matured. During fiscal 2010 one domestic loan was entered into for $148 million with a term of 10 years (2009: two bank loans were entered into totalling $1,279 million with terms of 2 to 3 years). During fiscal 2010, domestic loan repayments totalled $1,350 million (2009: $500 million).

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(a) Capital management (continued)

Interest and yields

The net interest on borrowings is shown in Table C below. Where applicable, finance costs are assigned to categories on the basis of the hedged item.

Table C

	Telstra Group As at 30 June 2010 $m	Telstra Group As at 30 June 2009 $m
Interest on borrowings (i)		
Financial instruments in hedge relationships		
Domestic loans in cash flow hedges (ii)	**19**	19
Offshore loans in cash flow hedges (ii)	**422**	416
Offshore loans in fair value hedges (ii)	**205**	246
Promissory notes in fair value hedges (ii)	**3**	66
Derivatives and borrowings hedging net foreign investments	**(1)**	12
Available for sale		
Promissory notes	**-**	20
Other financial instruments		
Offshore loans not in a hedge relationship or de-designated from fair value hedge relationships (ii)	**152**	155
Telstra bonds and domestic loans	**254**	262
Other	**5**	3
Finance leases	**12**	9
	1,071	1,208
Finance income on net debt		
Cash and cash equivalents	**57**	57
Net interest on net debt	**1,014**	1,151

(i) The interest expense as shown in Table C above is categorised based on the classification of financial instruments applicable as at 30 June.

(ii) Interest expense is a net amount after offsetting interest income and interest expense on associated derivative instruments.

The effective yield (effective interest rate) on our net debt at 30 June 2010 was 6.90% (2009: 6.67%) for the Telstra Group. This yield is a weighted average yield calculated on the interest rates and net debt carrying values as at 30 June. It should be noted that these yields are calculated based on interest rates applicable as at balance date.

The average yield on average net debt during the year was 6.42% (2009: 7.14%) for the Telstra Group. The reduction in the average yield is principally due to lower short term market base interest rates in the current year compared to the prior year which resulted in lower costs on the floating rate debt component of our debt portfolio.

The year-on-year net decrease in interest on borrowings arises from a combination of the following factors:

- reduction in interest costs arising from:
  - a reduction in the average yield on debt which was principally due to reductions in short-term market base interest rates during the year flowing through to the floating rate debt component of our debt portfolio; and
  - reduction in the average volume of net debt over the period; offset by
- increase in interest costs arising from higher refinancing yields on new debt raised during the year.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(b) Financial instruments

The carrying amounts, fair values and face values of each category of our financial instruments are shown in Table D. The amounts disclosed are prior to netting offsetting risk positions of financial instruments in a hedge relationship.

We also have potential financial liabilities not included in the tables below which may arise from certain contingencies disclosed in note 23 and note 30. However, we do not expect those potential liabilities to crystallise into obligations.

Table D	Telstra Group As at 30 June 2010			Telstra Group As at 30 June 2009		
	Carrying amount	Fair value	Face value	Carrying amount	Fair value	Face value
	Receivable / (Payable)			Receivable / (Payable)		
	$m	$m	$m	$m	$m	$m
Financial instruments included in net debt						
Cash at bank and on hand	**543**	**543**	**543**	462	462	462
Available for sale - at fair value						
Bank deposits, bills of exchange and promissory notes (i)	**1,578**	**1,578**	**1,594**	935	935	941
In designated hedge relationships - at fair value						
Net cross currency swap liability - hedging instrument	**(1,159)**	**(1,159)**	**(1,243)**	(25)	(25)	(134)
Net interest rate swap asset - hedging instrument	**190**	**190**	**-**	221	221	-
Net forward contract liability - hedging instrument	**3**	**3**	**(13)**	(82)	(82)	(94)
Promissory notes - hedged item (ii)	**(69)**	**(69)**	**(69)**	(15)	(15)	(16)
Offshore loans - hedged item (ii)	**(2,562)**	**(2,572)**	**(2,514)**	(3,924)	(3,944)	(3,849)
In designated hedge relationships - at amortised cost						
Offshore loans - hedged item	**(6,146)**	**(6,489)**	**(6,178)**	(5,452)	(5,544)	(5,468)
Telstra bonds and domestic loans - hedged item	**(274)**	**(261)**	**(275)**	(273)	(244)	(275)
Promissory notes - hedging instrument	**(205)**	**(205)**	**(206)**	(284)	(284)	(287)
Offshore loans - hedging instrument	**(285)**	**(298)**	**(288)**	(202)	(202)	(205)
Not in designated hedge relationship - at fair value						
Net forward contract asset	**17**	**17**	**12**	1	1	1
Net cross currency swap liability	**(325)**	**(325)**	**(382)**	68	68	18
Net interest rate swap asset	**137**	**137**	**-**	88	88	-
De-designated from hedge relationship - at amortised cost						
Offshore loans	**(1,214)**	**(1,413)**	**(1,329)**	(1,438)	(1,544)	(1,576)
Other financial liabilities - at amortised cost						
Finance lease payable	**(129)**	**(129)**	**(159)**	(95)	(95)	(128)
Offshore loans	**(713)**	**(788)**	**(716)**	(1,133)	(1,196)	(1,142)
Telstra bonds and domestic loans	**(3,313)**	**(3,321)**	**(3,334)**	(4,507)	(4,405)	(4,534)
Telstra Group net debt	**(13,926)**	**(14,561)**	**(14,557)**	(15,655)	(15,805)	(16,286)
Other financial instruments						
Loans and receivables at amortised cost						
Finance lease receivable	**148**	**148**	**163**	126	126	140
Trade/other receivables and accrued revenue	**3,996**	**3,996**	**4,227**	4,022	4,022	4,271
Amounts owed by jointly controlled and associated entities	**37**	**37**	**219**	38	38	229
Financial liabilities at amortised cost						
Trade/other creditors and accrued expenses	**(3,853)**	**(3,853)**	**(3,853)**	(3,712)	(3,712)	(3,712)
Deferred consideration for capital expenditure	**(238)**	**(238)**	**(349)**	(267)	(267)	(400)
Net financial liabilities	**(13,836)**	**(14,471)**	**(14,150)**	(15,448)	(15,598)	(15,758)
Total financial assets	**6,649**	**6,649**	**6,758**	5,961	5,961	6,062
Total financial liabilities	**(20,485)**	**(21,120)**	**(20,908)**	(21,409)	(21,559)	(21,820)
Net financial liabilities	**(13,836)**	**(14,471)**	**(14,150)**	(15,448)	(15,598)	(15,758)

(i) For financial assets and financial liabilities with a short-term to maturity, the carrying amount is considered to approximate fair value.

(ii) These borrowings are in fair value hedges. The carrying amount of our borrowings in fair value hedges is adjusted for fair value movements attributable to the hedged risk.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(b) Financial instruments (continued)

As shown in Table D, the carrying amount of net debt is lower than that based on contractual face values. This is primarily due to the impact of revaluation gains on our debt portfolio as a result of having locked in lower debt margins on our borrowings as compared to market rates applicable as at 30 June.

Fair Value Hierarchy

We use various methods in estimating the fair value of our financial instruments. The methods comprise:

- Level 1: the fair value is calculated using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety has been determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. An unobservable valuation input is considered significant if stressing the unobservable input to the valuation model would result in a greater than 10% change in the overall fair value of the instrument.

The fair value of the financial instruments and the classification within the fair value hierarchy are summarised in Tables E and F below, followed by a description of the methods used to estimate the fair value.

Table E: Fair value hierarchy

	Telstra Group			
	As at 30 June 2010			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Available for sale Investments - other				
Quoted securities	1	-	-	1
Derivative assets				
Cross currency swaps	-	180	-	180
Interest rate swaps	-	559	-	559
Forward contracts	-	26	-	26
	1	765	-	766
Derivative liabilities				
Cross currency swaps	-	(1,664)	-	(1,664)
Interest rate swaps	-	(232)	-	(232)
Forward contracts	-	(6)	-	(6)
	-	(1,902)	-	(1,902)
	-	(1,137)	-	(1,136)

Table F: Fair value hierarchy

	Telstra Group			
	As at 30 June 2009			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Available for sale Investments - other				
Quoted securities	1	-	-	1
Derivative assets				
Cross currency swaps	-	701	-	701
Interest rate swaps	-	495	-	495
Forward contracts	-	5	-	5
	1	1,201	-	1,202
Derivative liabilities				
Cross currency swaps	-	(658)	-	(658)
Interest rate swaps	-	(186)	-	(186)
Forward contracts	-	(86)	-	(86)
	-	(930)	-	(930)
	-	271	-	272

Cross currency and interest rate swaps

The net fair values of our cross currency and interest rate swaps are determined using valuation techniques which utilise data from observable and unobservable market data. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of Telstra's cost of borrowing. In particular, the following inputs are used to derive yield curves used in the calculation of fair value of our derivatives:

- base curves which are readily available market data and quoted for all major currencies; and
- pricing data reflecting Telstra's borrowing margins obtained from selected market participants with whom Telstra has or would transact in capital markets. We generally use the mid point of the pricing data range in calculating the yield curve. This pricing data used to estimate Telstra's borrowing margins is not observable, however sensitivity analysis on changes to this input, by using the maximum point in the pricing range, does not result in a significant change to the fair value of our cross currency and interest rate swaps.

We have therefore classified these derivatives based on the observable market inputs (Level 2).

Forward contracts

The fair value of our forward exchange contracts is calculated by reference to forward exchange market rates at balance date for contracts with similar maturity profiles. These market rates are observable and therefore these derivatives have been classified as Level 2.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(b) Financial instruments (continued)

Movements in Net Debt

The reduction in the carrying amount (including net cash movements) of our net debt during the year of $1,729 million for the Telstra Group (30 June 2009: increase of $269 million) is represented by the movements shown in Table G below:

Table G: Movements in net debt	Telstra Group	
	Year ended 30 June	
	2010	2009
	$m	$m
New offshore and domestic loans	**(1,777)**	(2,627)
Net short term borrowing maturities	**28**	1,186
Repayment of offshore and domestic loans	**2,648**	611
Finance lease repayments	**55**	36
Net cash outflow / (inflow)	**954**	(794)
Revaluation gains/(losses) affecting cash flow hedging reserve	**92**	(103)
Revaluation gains/(losses) affecting foreign currency translation hedging reserve	**36**	(84)
Revaluation gains affecting other expenses in income statement	**17**	11
Revaluation (losses)/gains affecting finance costs in income statement (i)	**(6)**	243
Finance lease additions	**(88)**	(24)
	51	43
Total reduction / (increase) in gross debt	**1,005**	(751)
Net movement in cash and cash equivalents	**724**	482
Total reduction / (increase) in net debt	**1,729**	(269)

(i) The net revaluation loss of $6 million affecting finance costs includes a loss of $26 million from fair value hedges (2009: gain of $61 million) and a gain of $36 million (2009: $222 million) from transactions either not designated or de-designated from hedge relationships (refer to note 7 for further detail). Also included in this net loss is $16 million (2009: $40 million) comprising amortisation of discounts (recorded in interest on borrowings) and other adjustments.

We have entered into the following new long term debt funding during the year:

- $1,499 million 10 year Euro bond in March 2010, matures 23 March 2020;
- $80 million 7 year New Zealand bond in May 2010, matures 11 July 2017;
- $50 million 10 year Hong Kong dollar bond in June 2010, matures 10 July 2020; and
- $148 million 10 year domestic bond in June 2010, matures 15 July 2020.

These term borrowings have strengthened our refinancing position. The $80 million New Zealand bond issue was used to replace some of our short term promissory notes used to hedge our offshore investment in TelstraClear Limited. Our unsecured promissory notes are used principally to support working capital and short term liquidity, as well as hedging certain offshore investments.

We repaid the following long term debt funding during the year:

- $500 million domestic bond which matured in March 2010;
- $782 million 5 year Euro bond which matured in June 2010;
- $244 million 2 year Euro private placement which matured in June 2010;
- $850 million 3 year domestic syndicated loan repaid in April 2010 which had an original maturity of November 2011;
- $110 million 3 year offshore syndicated loan (denominated in Australian dollars) repaid in May 2010 which had an original maturity of May 2012; and
- $162 million 5 year offshore syndicated loan (denominated in Australian dollars) repaid in May 2010 which had an original maturity of May 2014.

We have no further significant long term debt maturities to refinance until June 2011, and our short term unsecured promissory notes will continue to be supported by liquid financial assets and ongoing credit standby lines.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(c) Net position on a contractual face value basis

The amounts disclosed in Table H represent the net contractual face values of our financial assets and financial liabilities on a post hedge basis.

Table H

			Telstra Group As at 30 June Face values	
		Currency	**2010 $m**	2009 $m
Interest bearing financial assets included in net debt				
Cash and cash equivalents	Floating	Australian dollar	**1,602**	970
Cash and cash equivalents held in foreign currencies	Floating	Various	**442**	334
Bank deposits with maturity greater than 90 days	Floating	Foreign	**16**	16
			2,060	1,320
Interest bearing financial liabilities included in net debt				
Cross currency & interest rate swap liability (i)	Fixed	Australian dollar	**(6,059)**	(6,020)
Borrowings	Fixed	Australian dollar	**(2,016)**	(1,826)
Borrowings (ii)	Fixed	Foreign	**(328)**	(256)
Cross currency & interest rate swap liability (i)	Floating	Australian dollar	**(5,945)**	(5,467)
Borrowings	Floating	Australian dollar	**(1,435)**	(3,057)
Forward contract liability - net (iii)	Floating	Australian dollar	**(72)**	(109)
Cross currency & interest rate swap liability	Floating	Foreign	**(633)**	(668)
Borrowings (iv)	Floating	Foreign	**(206)**	(287)
			(16,694)	(17,690)
Net interest bearing debt			**(14,634)**	(16,370)
Non-interest bearing cash included in net debt		Various	**77**	84
Net debt - based on contractual face values			**(14,557)**	(16,286)

(i) These amounts represent the end hedge position as described in our hedge relationships in note 18 Table H.

(ii) Includes offshore loans of $288 million (2009: $205 million) used to hedge our investment in TelstraClear Limited as described in our hedge relationships in note 18 Table K.

(iii) Includes final pay legs $1,211 million (2009: $1,049 million) as described in our hedge relationships in note 18 Table J.

(iv) Comprises promissory notes used to hedge our investment in TelstraClear Limited as described in our hedge relationships in note 18 Table K.

The above table represents our economic residual position after netting offsetting risks of our derivative and non-derivative financial instruments in a hedge relationship. Accordingly, consistent with our policy to swap foreign currency borrowings into Australian dollars, only our Australian dollar end positions are included in the table above, except for a small proportion of foreign currency borrowings/cross currency swaps used to hedge translation foreign exchange risk associated with our offshore investments and some cash balances/finance leases held in foreign currencies by our foreign controlled entities. These foreign currency amounts are reported in Australian dollars based on the applicable exchange rate as at 30 June.

Total net debt in Table H agrees to the face value of our financial instruments included in net debt in Table D. The face values differ from the statement of financial position carrying amounts. The carrying amounts reflect a part of our borrowing portfolio at fair value with the remaining part at amortised cost, whereas the face values represent the undiscounted contractual liability at maturity date.

(d) Derivative financial instruments

All our derivatives are in designated hedge relationships which satisfy the requirements for hedge accounting, except for some cross currency and interest rate swaps hedging certain offshore borrowings and some forward foreign currency contracts hedging trade and other creditors denominated in a foreign currency. These derivatives are de-designated or not in designated hedge relationships for hedge accounting purposes and are classified as held for trading. Refer to note 18 for details on hedging relationships.

Derivative financial instruments for the Telstra Group as at balance date are shown in Table I and Table J below. For these derivative instruments the fair value equates to the carrying amounts in the statement of financial position which differs from the face values which are also provided in other tables within this note.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(d) Derivative financial instruments (continued)

Table I — Telstra Group — As at 30 June 2010

	Cross currency swaps Asset $m	Cross currency swaps Liability $m	Interest rate swaps Asset $m	Interest rate swaps Liability $m	Forward contracts Asset $m	Forward contracts Liability $m	Total Asset $m	Total Liability $m	Total Net $m
Current									
Fair value hedge	-	(150)	36	-	1	-	37	(150)	(113)
Cash flow hedge (i)	-	(203)	52	(21)	6	(4)	58	(228)	(170)
Hedge of net investment in foreign operation	59	(4)	-	-	-	-	59	(4)	55
Held for trading (ii)	-	-	-	-	19	(2)	19	(2)	17
	59	(357)	88	(21)	26	(6)	173	(384)	(211)
Non current									
Fair value hedge	98	(169)	35	-	-	-	133	(169)	(36)
Cash flow hedge (i)	19	(806)	299	(211)	-	-	318	(1,017)	(699)
Hedge of net investment in foreign operation	3	(6)	-	-	-	-	3	(6)	(3)
Held for trading (ii)	1	(326)	137	-	-	-	138	(326)	(188)
	121	(1,307)	471	(211)	-	-	592	(1,518)	(926)
	180	(1,664)	559	(232)	26	(6)	765	(1,902)	(1,137)

Table J — Telstra Group — As at 30 June 2009

	Cross currency swaps Asset $m	Cross currency swaps Liability $m	Interest rate swaps Asset $m	Interest rate swaps Liability $m	Forward contracts Asset $m	Forward contracts Liability $m	Total Asset $m	Total Liability $m	Total Net $m
Current									
Fair value hedge	112	-	11	-	-	(1)	123	(1)	122
Cash flow hedge (i)	-	-	-	-	1	(82)	1	(82)	(81)
Hedge of net investment in foreign operation	-	(25)	-	-	-	-	-	(25)	(25)
Held for trading (ii)	-	-	-	-	4	(3)	4	(3)	1
	112	(25)	11	-	5	(86)	128	(111)	17
Non current									
Fair value hedge	190	(152)	114	-	-	-	304	(152)	152
Cash flow hedge (i)	221	(408)	282	(186)	-	-	503	(594)	(91)
Hedge of net investment in foreign operation	49	(12)	-	-	-	-	49	(12)	37
Held for trading (ii)	129	(61)	88	-	-	-	217	(61)	156
	589	(633)	484	(186)	-	-	1,073	(819)	254
	701	(658)	495	(186)	5	(86)	1,201	(930)	271

(i) Gains or losses recognised in the cash flow hedging reserve on cross currency swap and interest rate swap contracts will be continuously released to the income statement until the underlying borrowings are repaid. Gains or losses recognised in the cash flow hedging reserve on forward exchange contracts will be released to the income statement when the underlying forecast transaction occurs and affects profit or loss. However, where the underlying forecast transaction is a purchase of a non financial asset (for example property, plant & equipment) the gain or loss in the cash flow hedging reserve will be transferred and included in the measurement of the initial cost of the asset at the date the asset is recognised.

(ii) Derivatives which are classified as held for trading are in economic relationships but are not in a designated hedge relationship for hedge accounting purposes. These derivatives include cross currency and interest rate swaps associated with a long term Euro bond issue not in a designated hedge relationship and with a number of offshore borrowings denominated in United States dollars, Euro and British pounds sterling which were in fair value hedges and were de-designated from the hedge relationship for hedge accounting purposes as they did not meet requirements for hedge effectiveness. Notwithstanding that these held for trading derivatives do not satisfy the requirements for hedge accounting, it is important to note that these relationships are in effective economic relationships based on contractual amounts and cash flows over the life of the transaction. Also included in held for trading derivatives are forward contracts economically hedging trade creditors and other liabilities denominated in a foreign currency.

Notes to the Financial Statements (continued)

18. Financial risk management

Financial risk management

We undertake transactions in a range of financial instruments including:

- cash assets;
- receivables;
- payables;
- deposits;
- bills of exchange and promissory notes;
- listed investments and investments in other corporations;
- various forms of borrowings, including medium term notes, promissory notes, bank loans and private placements; and
- derivatives.

Our activities result in exposure to operational risk and a number of financial risks, including market risk (interest rate risk, foreign currency risk), credit risk and liquidity risk.

Our overall risk management program seeks to mitigate these risks and reduce volatility on our financial performance and support the delivery of our financial targets. We manage our risks with a view to the outcomes of both our financial results and the underlying economic position. Financial risk management is carried out centrally by our Treasury department, which is part of our corporate area, under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and the investment of excess liquidity.

We enter into derivative transactions in accordance with Board approved policies to manage our exposure to market risks and volatility of financial outcomes that arise as part of our normal business operations. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative instruments that we use to hedge risks such as interest rate and foreign currency movements include:

- cross currency swaps;
- interest rate swaps; and
- forward exchange contracts.

We do not speculatively trade in derivative instruments. Our derivative transactions are entered into to hedge the risks relating to underlying physical positions arising from our business activities.

Section (a) of this note sets out the key financial risk factors that arise from our activities, including our policies for managing these risks.

Sections (b) and (c) provide details of our hedging strategies and hedge relationships that are used for financial risk management. In particular, these sections provide additional context around our hedge transactions and the resulting economic and risk positions.

(a) Risk and mitigation

The risks associated with our main financial instruments and our policies for minimising these risks are detailed below. These risks comprise market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. Components of market risk to which we are exposed are discussed below.

(i) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

Interest rate risk arises from interest bearing financial assets and liabilities. Non derivative interest bearing assets are predominantly short term liquid assets. Our interest rate liability risk arises primarily from long term foreign debt issued at fixed rates which exposes us to fair value interest rate risk. Our borrowings which have a variable interest rate attached give rise to cash flow interest rate risk.

Our debt is sourced from a number of financial markets covering domestic and offshore, short term and long term funding. The majority of our debt consists of foreign currency denominated borrowings. We manage our debt in accordance with targeted currency, interest rate, liquidity, and debt portfolio maturity profiles. Specifically, we manage interest rate risk on our net debt portfolio by:

- adjusting the ratio of fixed interest debt to variable interest debt to our target ratio, as required by our debt management policy;
- ensuring access to diverse sources of funding;
- reducing risks of refinancing by establishing and managing in accordance with target maturity profiles; and
- undertaking hedging activities through the use of derivative instruments.

Under our interest rate swaps we agree with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to note 17 Table H for our residual post hedge fixed and floating interest positions on a contractual face value basis.

We hedge interest rate and currency risk on most of our foreign currency borrowings by entering into cross currency principal swaps and interest rate swaps when required, which have the economic effect of converting foreign currency borrowings to Australian dollar borrowings. ‘Hedging strategies’ and ‘Hedge relationships’ contained in sections (b) and (c) of this note provides further information.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risk and mitigation (continued)

(i) Interest rate risk (continued)

The weighted average interest rates on our fixed and floating rate financial instruments as at 30 June which do not have offsetting risk positions and the principal/notional amounts on which interest is calculated are shown in Table A below. Interest rate positions on our foreign cross currency and foreign interest rate swaps and on the majority of our foreign borrowings are fully offset.

Accordingly, the majority of our instruments in the following table represent Australian dollar interest positions.

Principal/notional amounts shown are net of discounts and as such differ from the face value disclosed in note 17 (Table D).

TABLE A

	Telstra Group			
	As at 30 June 2010		As at 30 June 2009	
	Principal/ notional receivable/ (payable) $m	**Weighted average % (*)**	Principal/ notional receivable/ (payable) $m	Weighted average % (*)
Fixed rate instruments - Australian interest rate				
Cross currency & interest rate swap payable	**(6,059)**	**6.22**	(6,020)	6.31
Finance lease payable	**(108)**	**6.90**	(70)	5.89
Telstra bonds and domestic loans	**(1,879)**	**7.21**	(1,727)	7.16
Fixed rate instruments - Foreign interest rates				
Bank deposits with maturity greater than 90 days	**16**	**2.23**	16	2.10
Finance lease payable	**(21)**	**21.00**	(25)	12.19
Offshore loans (#)	**(285)**	**7.43**	(202)	7.38
	(8,336)		(8,028)	
Variable rate instruments - Australian interest rates				
Contractual repricing or maturity 6 months or less				
Cash and cash equivalents (^)	**1,586**	**4.89**	964	3.23
Cross currency swap receivable (#)	**685**	**4.85**	680	3.14
Cross currency & interest rate swap payable	**(6,630)**	**6.07**	(6,147)	4.33
Telstra bonds and domestic loans	**(1,434)**	**5.16**	(2,280)	4.01
Offshore loans	**-**		(269)	5.03
Contractual repricing or maturity within 0 to 12 months				
Forward contract liability - net (**)	**(72)**	**3.60**	(109)	1.63
Telstra bonds and domestic loans	**-**	**-**	(500)	7.39
Variable rate instruments - Foreign interest rates				
Contractual repricing or maturity 6 months or less				
Cash and cash equivalents (^)	**442**	**0.93**	333	0.55
Cross currency swap payable (#)	**(633)**	**0.05**	(668)	0.26
Promissory notes (#)	**(205)**	**3.23**	(284)	3.45
	(6,261)		(8,280)	
Net interest bearing debt	**(14,597)**		(16,308)	

(*) The average rate is calculated as the weighted average (based on principal/notional value) effective interest rate, as at balance date.

(#) These instruments are used to hedge our net foreign investments.

(^) Rates on cash at bank balances represent average rates earned on net positive cash balances after taking into account bank set-off arrangements.

(**) Some of our forward contracts have a contractual maturity greater than 12 months, however the amounts are not material and have been classified as current.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risk and mitigation (continued)

(ii) Sensitivity analysis - interest rate risk

The sensitivity analysis included in this section is based on the interest rate risk exposures on our net debt portfolio as at balance date.

A sensitivity of plus or minus 10 per cent has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. For example, a 10 per cent increase would move short term interest rates (cash) at 30 June 2010 from 4.5% (2009: 3.00%) to 4.95% (2009: 3.30%) representing a 45 (2009: 30) basis points shift. This basis points shift is considered reasonable taking into account the absolute rates as at 30 June and current market conditions.

The results in this sensitivity analysis reflect the net impact on a hedged basis which will be primarily reflecting the Australian dollar floating or Australian dollar fixed position from our cross currency and interest rate swap hedges and therefore the movement in the Australian dollar interest rates is an important assumption in this sensitivity analysis.

Based on the sensitivity analysis, equity would be affected by the revaluation of our derivatives associated with borrowings designated in a cash flow hedge relationship and finance costs would be impacted by the following:

- the impact on interest expense being incurred on our net floating rate Australian dollar positions during the year;
- the revaluation of our derivatives associated with borrowings de-designated from a fair value hedge relationship or not in a hedge relationship; and
- the ineffectiveness resulting from the change in fair value of both our derivatives and borrowings which are designated in a fair value hedge.

These first two factors above partially offset the third factor. For example, if interest rates were 10% higher, the increase in interest on floating rate debt, and the movement in the value of our derivatives associated with borrowings de-designated from a fair value hedge relationship or not in a hedge relationship, results in an increase in expense and the ineffectiveness component from our fair value hedges results in a gain.

The carrying value of borrowings de-designated from fair value hedge relationships or not in a hedge relationship is not adjusted for fair value movements attributable to interest rate risk. Accordingly, the revaluation gain or loss on our derivatives associated with these borrowings will not have an offsetting gain or loss attributable to interest rate movements on the underlying borrowing.

It is important to note that this sensitivity analysis does not include the effect of movements in Telstra's borrowing margins. Whilst margins will be affected by market factors, this risk variable predominantly reflects Telstra specific credit risk and accordingly is not considered a market risk. Furthermore, determining a reasonably possible change in this risk variable with sufficient reliability is impractical particularly given recent financial market conditions. Therefore, the following sensitivity analysis assumes a constant margin and parallel shifts in interest rates across all currencies.

The following sensitivity analysis is based on our interest rate exposures comprising:

- the revaluation impact on our derivatives and borrowings from a 10 per cent movement in interest rates based on the net debt balances as at balance date; and
- the effect on interest expense on our floating rate borrowings from a 10 per cent movement in interest rates at each reset date during the year.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risk and mitigation (continued)

(ii) Sensitivity analysis - interest rate risk (continued)

At 30 June, if interest rates had moved as illustrated in Table B below, with all other variables held constant and taking into account all underlying exposures and related hedges, profit and equity after tax would have been affected as follows:

TABLE B **Telstra Group**

	+10%				-10%			
	Net profit (*)		Equity (cash flow hedging reserve)		Net profit (*)		Equity (cash flow hedging reserve)	
	Year ended 30 June Gain / (loss)		As at 30 June Gain / (loss)		Year ended 30 June Gain / (loss)		As at 30 June Gain / (loss)	
	2010 $m	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Revaluation of derivatives & borrowings - fair value hedges of offshore loans (i)	**3**	11	**-**	-	**(3)**	(11)	**-**	-
Revaluation of derivatives - borrowings de-designated from fair value hedges or not in a hedge relationship (ii)	**(5)**	(17)	**-**	-	**4**	17	**-**	-
Revaluation of derivatives - cash flow hedges of offshore loans (iii)	**-**	-	**79**	51	**-**	-	**(84)**	(51)
Floating rate Australian dollar instruments (iv)	**(36)**	(44)	**-**	-	**36**	44	**-**	-
	(38)	(50)	**79**	51	**37**	50	**(84)**	(51)

(*) The before tax impact is included within finance costs.

(i) Maturities of Euro borrowings in fair value hedges during fiscal 2010 combined with the shift in the fair value of our portfolio as at 30 June valuation dates resulted in a lower sensitivity in 2010 compared to 2009.

(ii) The lower sensitivity in the current year compared to the prior year is due to a shift in the yield and fair values of our pay float positions relative to our receive fixed positions, attributable to an increase in the market base interest rate as at 30 June valuation date.

(iii) Total borrowings in cash flow hedges as at 30 June 2010 increased compared to 30 June 2009 due to a Euro bond issue during the year which is in a designated cash flow hedge. This is the main factor which resulted in the higher sensitivity in 2010 compared to 2009.

(iv) A reduction in the year-on-year average yields resulted in a lower year-on-year sensitivity.

(iii) Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, forecast transaction, recognised asset or liability will fluctuate due to changes in foreign currency rates. Our foreign currency exchange risk arises primarily from:

- borrowings denominated in foreign currencies;
- trade and other creditor balances denominated in a foreign currency;
- firm commitments or highly probable forecast transactions for receipts and payments settled in foreign currencies or with prices dependent on foreign currencies; and
- net investments in foreign operations.

We are exposed to foreign exchange risk from various currency exposures, including:

- Euro;
- United States dollars;
- British pounds sterling;
- New Zealand dollars;
- Swiss francs;
- Hong Kong dollars;
- Chinese renminbi; and
- Japanese yen.

Our economic foreign currency risk is assessed for each individual currency and for each hedge type, calculated by aggregating the net exposure for that currency for that hedge type.

We minimise our exposure to foreign currency risk by initially seeking contracts effectively denominated in Australian dollars where possible and economically favourable to do so. Where this is not possible we manage our exposure as follows.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risk and mitigation (continued)

(iii) Foreign currency risk (continued)

Cash flow foreign currency risk arises primarily from foreign currency overseas borrowings. We hedge this risk on the major part of our foreign currency denominated borrowings by entering into a combination of interest rate and cross currency swaps at inception to maturity, effectively converting them to Australian dollar borrowings. A relatively small proportion of our foreign currency borrowings are not swapped into Australian dollars where they are used as hedges for foreign exchange exposure such as translation foreign exchange risk from our offshore business investments. Refer to note 17 Table H for our residual post hedge currency exposures on a contractual face value basis.

Foreign exchange risk that arises from transactional exposures such as firm commitments or highly probable transactions settled in a foreign currency (primarily United States dollars) are managed principally through the use of forward foreign currency derivatives. We hedge a proportion of these transactions (such as asset and inventory purchases settled in foreign currencies) in accordance with our risk management policy.

Foreign currency risk also arises on translation of the net assets of our foreign controlled entities which have a functional currency other than Australian dollars. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. We manage this translation foreign exchange risk with forward foreign currency contracts, cross currency swaps and/or borrowings denominated in the currency of the entity concerned. We currently hedge our net investments in TelstraClear Limited and Hong Kong CSL Limited in New Zealand dollars and Hong Kong dollars respectively, where the amount hedged is in the range of 40% to 50%.

In addition, our subsidiaries may hedge foreign exchange transactions such as exposures from asset/liability balances or forecast sales/purchases in currencies other than their functional currency. Where this occurs, external foreign exchange contracts are designated at the group level as hedges of foreign exchange risk on the specific asset/liability balance or forecast transaction.

We also economically hedge a proportion of foreign currency risk associated with trade and other creditor balances using forward foreign currency contracts.

Refer to section (b) ‘Hedging strategies’ and section (c) ‘Hedge relationships’ contained in this note for further information.

(iv) Sensitivity analysis - foreign currency risk

The sensitivity analysis included in this section is based on foreign currency risk exposures on our financial instruments and net foreign investment balances as at balance date.

The translation of our investments in foreign operations from their functional currency to Australian dollars represents a translation risk rather than a financial risk. Nevertheless, in this sensitivity analysis we have included the translation impact on our foreign currency translation reserve from movements in the exchange rate. In so doing, this sensitivity analysis reflects the impact on equity from a movement in the exchange rate associated with both the underlying hedged investment and the financial instruments hedging the translation currency risk.

Adverse versus favourable movements are determined relative to the underlying exposure. An adverse movement in exchange rates implies an increase in our foreign currency risk exposure and a worsening of our financial position. A favourable movement in exchange rates implies a reduction in our foreign currency risk exposure and an improvement of our financial position.

A sensitivity of 10 per cent has been selected as this is considered reasonable taking into account the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movements. Comparing the Australian dollar exchange rate against the Euro, the year end rate of 0.69783 (2009: 0.57513) would generate a 10 per cent favourable position of 0.76761 (2009: 0.6326) and an adverse position of 0.63439 (2009: 0.5228). This range is considered reasonable given the volatility that has been observed. For example over the last five years, the Australian dollar exchange rate against the Euro has traded in the range 0.4755 to 0.7178 (2009: 0.4755 to 0.6461).

Foreign currency risk exposure from recognised assets and liabilities arises primarily from our long term borrowings denominated in foreign currencies. There is no significant impact on profit from foreign currency movements associated with these borrowings as they are effectively hedged.

There is some volatility in profit from exchange rate movements associated with our borrowings de-designated or not in hedge relationships and with our cash flow hedges of forecast transactions.

We are exposed to equity impacts from foreign currency movements associated with our offshore investments and our derivatives in cash flow hedges of offshore borrowings. This foreign currency risk is spread over a number of currencies and accordingly, we have disclosed the sensitivity analysis on a total portfolio basis and not separately by currency. It should be noted that our foreign currency exposure associated with cash flow hedge derivatives are predominantly in Euro and with our offshore investments they are predominantly in Hong Kong dollars, New Zealand dollars and Chinese renminbi (relating to our investments in Hong Kong CSL Limited, TelstraClear Limited, SouFun Holdings Limited, Sequel Limited and Telstra Octave Holdings Limited).

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risks and mitigation (continued)

(iv) Sensitivity analysis - foreign currency risk (continued)

The following sensitivity analysis is based on our foreign currency risk exposures comprising the revaluation impact on our derivatives and borrowings and net foreign investments from a 10% adverse/favourable movement in foreign exchange rates based on our balances as at balance date. At 30 June, had the Australian dollar against all applicable currencies moved as illustrated in Table C, with all other variables held constant and taking into account identified underlying exposures and related hedges, net profit and equity after tax would have been affected as follows:

TABLE C **Telstra Group**

	10% adverse movement						10% favourable movement					
	Net profit		Equity (foreign currency translation reserve)		Equity (cash flow hedging reserve)		Net profit		Equity (foreign currency translation reserve		Equity (cash flow hedging reserve)	
	Year ended 30 June		As at 30 June		As at 30 June		Year ended 30 June		As at 30 June		As at 30 June	
	Gain / (loss)		Gain / (loss)		Gain / (loss)		Gain / (loss)		Gain / (loss)		Gain / (loss)	
	2010 $m	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Revaluation of derivatives and borrowings - de-designated from fair value hedges or not in a hedge relationship (i)	**(5)**	(6)	**-**	-	**-**	-	**8**	7	**-**	-	**-**	-
Revaluation of derivatives and underlying exposure - cash flow hedges of forecast transactions (ii)	**(21)**	(10)	**-**	-	**-**	-	**25**	7	**-**	-	**-**	-
Revaluation of derivatives - cash flow hedges of offshore loans (iii)	**-**	-	**-**	-	**(24)**	(9)	**-**	-	**-**	-	**33**	11
Net foreign investments (iv)	**-**	-	**(163)**	(156)	**-**	-	**-**	-	**199**	190	**-**	-
	(26)	(16)	**(163)**	(156)	**(24)**	(9)	**33**	14	**199**	190	**33**	11

(i) The impact of some of our borrowings de-designated from fair value hedge relationships or not in a hedge relationship has resulted in some volatility to profit. The revaluation impact attributable to foreign exchange movements will largely offset between the derivatives and the borrowings, however there will be some profit impact due to the fact that the derivatives are recorded at fair value and hence the foreign exchange movements are recognised at present value. The borrowings which are accounted for on an amortised cost basis will reflect revaluation movements for changes in the spot exchange rate which are not discounted. Therefore, the impact on profit is primarily attributable to the discounting effect of the foreign exchange gains and losses on the hedging derivatives.

(ii) The higher sensitivity in 2010 compared to 2009 is due to an increase in the volumes of our forecast foreign currency purchases as at 30 June 2010 compared to 30 June 2009.

(iii) The higher sensitivity in 2010 compared to 2009 is primarily due to the shift in the fair value of our portfolio as at 30 June valuation dates and a new Euro bond issue entered into during the year which is in a designated cash flow hedge.

(iv) The sensitivity does not significantly differ from the prior year. The impact on the foreign currency translation reserve relates to the translation of the net assets of our foreign controlled entities including the impact of hedging. The net gain or loss in the sensitivity analysis represents the impact relating to the unhedged portion of the net assets of our foreign controlled entities.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risks and mitigation (continued)

Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. We have exposure to credit risk on all financial assets included in our statement of financial position, comprising cash and cash equivalents, trade and other receivables, available-for-sale financial assets, finance lease receivables and derivative instruments. To help manage this risk:

- we have a policy for performing credit risk assessments on new and existing customers and where required, establishing credit limits and payment terms for entities we deal with;
- we monitor exposure to high risk debtors on a predictive and pro-active basis;
- we may require collateral where appropriate; and
- we manage exposure to individual entities we either transact with or enter into derivative contracts with (through a system of credit limits).

Where entities have a right of set-off and intend to settle on a net basis under master netting arrangements, this set-off has been recognised in the financial statements on a net basis. We may also be subject to credit risk for transactions which are not included in the statement of financial position, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 23 and note 30.

Trade and other receivables consist of a large number of customers, spread across the consumer, business, enterprise, government and international sectors. We do not have any significant credit risk exposure to a single customer or groups of customers. Ageing analysis and ongoing credit evaluation is performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debtors is raised. In addition, receivable balances are monitored on an ongoing basis with the result that our exposure to bad debts is not significant. For further details regarding our trade and other receivables refer to note 10.

In relation to our transactions in money market instruments, forward foreign currency contracts, cross currency and interest rate swaps there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout (i.e. in the money). We have policies that limit the amount of credit exposure to any financial institution. These risk limits are regularly monitored. Derivative counterparties and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with our policy requirements. Our credit risk and financial instruments are spread amongst a number of financial institutions.

One of the methods that we use to manage the credit risk exposure relating to these instruments is to monitor our exposure by country of financial institution based on a value at risk (VaR) methodology. Value at risk calculations are a technique that estimates the potential losses that could occur on risk positions in the future as a result of movements in market rates over a specified time horizon given a specified level of confidence which is statistically determined.

The amounts included in Table D below include the in-the-money market values combined with a potential credit calculation and will therefore not equate to the accounting carrying value, fair value or face value of the transactions as disclosed in note 17.

In determining the potential credit limit factors to be used in these calculations, the following should be noted:

- reference is made to the historical volatility factors relevant to the particular currencies/interest rates applicable to the instruments;
- in determining the volatility factors, reference has been made to the holding period or in this case the maturity of the instrument. In some cases the transaction can have a maturity of up to 10 years and the potential volatility needs to reflect the possible movements over this time period given historical observations; and
- we have used 99% confidence levels to determine the applicable potential credit limit factors.

The VaR based methodology employed has the following limitations:

- the use of historical data as a proxy for estimating future events may not cover all potential events, in particular this is relevant when trying to estimate potential volatility over a long holding period such as 10 years; and
- the use of a 99% confidence level, by definition, may not take into account movements that may occur outside of this confidence threshold.

Table D — **Telstra Group**

Credit risk concentrations (VaR based)

	As at 30 June 2010		As at 30 June 2009	
	%	$m	%	$m
Australia	**18.7**	**1,495**	21.2	1,664
United States	**16.2**	**1,295**	22.2	1,743
Japan	**4.9**	**393**	3.5	271
Europe	**21.9**	**1,757**	21.0	1,642
United Kingdom	**21.7**	**1,737**	23.9	1,878
Canada	**0.7**	**57**	0.8	63
Switzerland	**3.1**	**252**	3.0	236
China/Hong Kong	**10.4**	**831**	4.1	321
Singapore	**2.2**	**177**	0.1	9
New Zealand	**0.2**	**20**	0.2	16
	100.0	**8,014**	100.0	7,843

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risks and mitigation (continued)

Liquidity risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- we will not have sufficient funds to settle a transaction on the due date;
- we will be forced to sell financial assets at a value which is less than what they are worth; or
- we may be unable to settle a financial liability or recover a financial asset at all.

To help reduce these risks we:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place;
- generally use instruments that are tradeable in highly liquid markets; and
- have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments ranging from ultra liquid, highly liquid and liquid instruments.

We monitor rolling forecasts of liquidity reserves on the basis of expected cash flow. Our objective is to maintain a balance between continuity of funding and flexibility through the use of liquid instruments, borrowings and committed available credit lines.

At 30 June 2010, based on contractual face values, 16% of our debt, comprising offshore borrowings, Telstra bonds and domestic loans and excluding promissory notes, will mature in less than one year (2009: 9%). The reason for the increase over the prior year is due to a significant Euro borrowing maturity in June 2011.

The contractual maturity of our fixed and floating rate financial liabilities and derivatives and the corresponding carrying values are shown in the following Table E. The contractual maturity amounts (nominal cash flows) represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying values. These amounts are reported in Australian dollars based on the applicable exchange rate as at 30 June. We have also included derivative financial assets in the following table on the basis that these assets have a direct relationship with an underlying financial liability and both the asset and the liability are managed in conjunction.

For floating rate instruments, the amount disclosed is determined by reference to the current market pricing for interest rates over the period to maturity.

Also affecting liquidity are cash at bank, available for sale financial assets and other non-interest bearing financial assets. Liquidity risk associated with these financial instruments is represented by the face values as shown in note 17 Table D.

18. Financial risk management (continued)

(a) Risks and mitigation (continued)

Liquidity risk (continued)

TABLE E — **Telstra Group**

	As at 30 June 2010						As at 30 June 2009					
		Contractual maturity (nominal cash flows)						Contractual maturity (nominal cash flows)				
	Carrying amount $m	Less than one year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Total $m	Carrying amount $m	Less than one year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Total $m
Derivative financial liabilities												
Interest rate swaps - pay fixed (i)	(216)	(80)	(76)	(106)	(73)	(335)	(186)	(164)	(86)	23	(27)	(254)
Interest rate swaps - pay variable (i)	(16)	(23)	-	-	-	(23)	-	-	-	-	-	-
Cross currency swaps - foreign leg variable (ii)	(632)	(333)	(302)	-	-	(635)	(668)	(321)	(353)	-	-	(674)
Cross currency swaps - AUD leg fixed (ii)	(268)	(18)	(124)	(154)	(38)	(334)	(257)	(18)	(18)	(144)	(172)	(352)
Cross currency swaps - AUD leg variable (ii)	(11,716)	(3,257)	(1,726)	(4,887)	(5,443)	(15,313)	(10,915)	(1,536)	(3,142)	(4,731)	(5,023)	(14,432)
Forward foreign currency contracts (ii)	(1,268)	(1,142)	(59)	(10)		(1,211)	(1,106)	(1,114)	-	-	-	(1,114)
Derivative financial assets												
Interest rate swaps - received fixed (i)	471	196	173	238	26	633	484	274	215	93	71	653
Interest rate swaps - receive variable (i)	88	90	-	-	-	90	11	9	(1)	2	1	11
Cross currency swaps - foreign leg fixed (ii)	869	27	50	289	610	976	794	26	65	175	699	965
Cross currency swaps - foreign leg variable (ii)	9,578	2,369	968	3,572	4,025	10,934	10,409	1,364	2,882	3,809	4,198	12,253
Cross currency swaps - AUD leg variable (ii)	685	412	306	-	-	718	680	311	397			708
Forward foreign currency contracts (ii)	1,288	1,144	56	10	-	1,210	1,025	1,020	-	-	-	1,020
Non-derivative financial liabilities												
Telstra bonds and domestic loans	(3,587)	(219)	(650)	(2,837)	(820)	(4,526)	(4,780)	(764)	(260)	(3,794)	(1,179)	(5,997)
Trade/other creditors and accrued expenses	(3,853)	(3,790)	(13)	(13)	(37)	(3,853)	(3,712)	(3,644)	(2)	(33)	(33)	(3,712)
Offshore loans	(10,920)	(2,713)	(1,550)	(4,265)	(4,757)	(13,285)	(12,149)	(1,714)	(3,206)	(4,769)	(5,098)	(14,787)
Finance leases	(129)	(50)	(35)	(49)	(25)	(159)	(95)	(38)	(27)	(31)	(32)	(128)
Promissory notes	(274)	(276)	-	-	-	(276)	(299)	(303)	-	-	-	(303)
Deferred consideration for capital expenditure	(238)	(56)	(49)	(108)	(136)	(349)	(267)	(90)	(44)	(87)	(179)	(400)

(i) Net amounts for interest rate swaps for which net cash flows are exchanged.

(ii) Contractual amounts to be exchanged representing gross cash flows to be exchanged.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risks and mitigation (continued)

Liquidity risk (continued)

Financing arrangements

Table F	Telstra Group	
	As at 30 June	
	2010	2009
	$m	$m
We have access to the following lines of credit:		
Credit standby arrangements		
Unsecured committed cash standby facilities which are subject to annual review	**382**	438
Amount of credit unused	**382**	438

We have promissory note facilities in place in the United States, Europe, Australia and New Zealand under which we may nominally issue up to $10,372 million (2009: $11,212 million). As at 30 June 2010, we had on issue $274 million (2009: $299 million) under these facilities. As at 30 June 2010, our subsidiary CSL Limited had a bank bill acceptance facility of $109 million (2009: $107 million) of which $107 million was issued (2009: $105 million). These facilities are not committed or underwritten and we have no guaranteed access to the funds. Generally, given we retain suitable ratings, our facilities are available unless we default on any terms applicable under the relevant agreements or become insolvent. During the current and prior years there were no defaults or breaches on any of our facility agreements.

(b) Hedging strategies

We hold a number of different financial instruments to hedge risks relating to underlying transactions. Our major exposure to interest rate risk and foreign currency risk arises from our long term borrowings. We also have translation currency risk associated with our offshore investments and transactional currency exposures such as purchases in foreign currencies.

We designate certain derivatives as either:

- hedges of the fair value of recognised liabilities (fair value hedges);
- hedges of foreign currency risk associated with recognised liabilities or highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation.

The terms and conditions in relation to our derivative instruments are similar to the terms and conditions of the underlying hedged items to maximise hedge effectiveness.

Borrowings de-designated from fair value hedge relationships or not in a designated hedge relationship

Our borrowings de-designated from fair value hedge relationships or not in designated hedge relationships comprise:

- a number of offshore borrowings denominated in United States dollar, Euro and British pounds sterling which were in fair value hedges and were de-designated from the hedge relationship for hedge accounting purposes;
- a long term Euro bond issue which is not in a designated hedge relationship for hedge accounting purposes;
- some forward foreign currency contracts that are not in a designated hedge relationship for hedge accounting purposes used to economically hedge fair value movements for changes in foreign exchange rates associated with trade creditors and other liabilities denominated in a foreign currency.

All our financial liabilities de-designated or not in designated hedge relationships are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

All other hedge relationships met hedge effectiveness requirements for hedge accounting purposes at the reporting date.

Refer to section (c) for details on our economic relationships. Refer to note 7 for the impact on finance costs relating to borrowings de-designated or not in hedge relationships.

Fair value hedges

We hold cross currency principal and interest rate swaps to mitigate our exposure to changes in the fair value of foreign denominated debt from fluctuations in foreign currency and interest rates. The hedged items designated are a portion of our foreign currency denominated borrowings. The changes in the fair values of the hedged items resulting from movements in exchange rates and interest rates are offset against the changes in the fair value of the cross currency and interest rate swaps. The objective of this hedging is to convert foreign currency borrowings to floating Australian dollar borrowings.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(b) Hedging strategies (continued)

Fair value hedges (continued)

The net impact on finance costs from remeasuring the fair value of the hedge instruments together with the gains and losses in relation to the hedged item where those gains or losses relate to the hedged risks largely represents ineffectiveness attributable to movements in Telstra's borrowing margins.

The re-measurement of the hedged items resulted in a gain before tax of $381 million (2009: loss of $573 million) and the changes in the fair value of the hedging instruments resulted in a loss before tax of $407 million (2009: gain of $634 million). This results in a net loss before tax of $26 million and after tax of $18 million (2009: net gain before tax of $61 million and after tax of $43 million).

Refer to note 7 for the impact on finance costs relating to borrowings in fair value hedges.

The effectiveness of the hedging relationship is tested prospectively, both on inception and in subsequent periods, and retrospectively by means of statistical methods using a regression analysis. Regression analysis is used to analyse the relationship between the derivative instruments (the dependent variable) and the underlying borrowings (the independent variable). The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in fair values achieved by the hedge.

Refer to note 17 Table I and Table J for the value of our derivatives designated as fair value hedges.

Cash flow hedges

Cash flow hedges are used to hedge exposures relating to our borrowings and our ongoing business activities where we have highly probable purchase or settlement commitments in foreign currencies.

We enter into cross currency and interest rate swaps as cash flow hedges of future payments denominated in foreign currency resulting from our long term offshore borrowings. The hedged items designated are a portion of the outflows associated with these foreign denominated borrowings. The objective of this hedging is to hedge foreign currency risks arising from spot rate changes and thereby mitigate the risk of payment fluctuations as a result of exchange rate movements.

We also enter into forward exchange contracts as cash flow hedges to hedge forecast transactions denominated in foreign currency which hedge foreign currency risk arising from spot rate changes. The hedged items comprise highly probable forecast payments for operating and capital items primarily denominated in United States dollars.

The effectiveness of the hedging relationship relating to our borrowings is tested prospectively, both on inception and in subsequent periods, and retrospectively by means of statistical methods using a regression analysis. The actual derivative instruments in a cash flow hedge are regressed against the hypothetical derivative. The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in cash flows achieved by the hedge.

The effectiveness of our hedges relating to highly probable forecast transactions is assessed prospectively based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected. An effectiveness test is carried out retrospectively using the cumulative dollar-offset method. For this, the changes in the fair values of the hedging instrument and the hedged item attributable to exchange rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective.

In relation to our offshore borrowings, ineffectiveness on our cash flow hedges is recognised in the income statement to the extent that the change in the fair value of the hedging derivatives in the cash flow hedge exceed the change in value of the underlying borrowings in the cash flow hedge during the hedging period. During the year there was no material ineffectiveness attributable to our cash flow hedges (refer to note 7). Also during the year there was no material impact on profit as a result of discontinuing hedge accounting for forecast transactions no longer expected to occur.

For hedge gains or losses transferred to and from the cash flow hedge reserve refer to the statement of comprehensive income.

Refer to note 17 Table I and Table J for the value of our derivatives designated as cash flow hedges.

The following table shows the maturities of the payments in our cash flow hedges, (i.e when the cash flows are expected to occur). These amounts represent the undiscounted cash flows reported in Australian dollars based on the applicable exchange rate as at 30 June and represent the identified foreign currency exposures at balance date in relation to our cash flow hedges.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(b) Hedging strategies (continued)

Cash flow hedges (continued)

Table G	Nominal cash outflows	
	Telstra Group	
	As at 30 June	
	2010 $m	2009 $m
Highly probable forecast transactions		
Non-Capital items (i)		
- less than one year	**(1,073)**	(473)
- one to five years	**(35)**	-
Capital items (ii)		
- less than one year	**(85)**	(102)
- one to five years	**(45)**	-
	(1,238)	(575)
Borrowings (iii)		
- less than one year	**(1,575)**	(284)
- one to five years	**(2,561)**	(3,355)
- greater than five years	**(3,921)**	(3,553)
	(8,057)	(7,192)

(i) These amounts will affect our income statement in the same period as the cash flows are expected to occur.

(ii) For purchases of property, plant & equipment the gains and losses on the associated hedging instruments are included in the measurement of the initial cost of the asset. The hedged asset purchases affect profit as the assets are depreciated over their useful lives. Refer to note 2 on our depreciation policies for property, plant and equipment.

(iii) The impact on our income statement from foreign currency movements associated with these hedged borrowings will affect profit over the life of the borrowing, however the impact on profit is expected to be nil as the borrowings are effectively hedged.

Hedges of net investments in foreign operations

We have exposure to foreign currency risk as a result of our investments in offshore activities. This risk is created by the translation of the net assets of these entities from their functional currency to Australian dollars. We hedge our investments in foreign operations to mitigate exposure to this risk using forward foreign currency contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.

The effectiveness of the hedging relationship is tested using prospective and retrospective effectiveness tests. In a retrospective effectiveness test, the changes in the fair value of the hedging instruments and the change in the value of the hedged net investment from spot rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective. The prospective effectiveness test is performed based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected.

During the year there was no material ineffectiveness attributable to our hedges of net foreign investments.

In the consolidated statement of comprehensive income, net gains before tax of $30 million and after tax of $21 million (2009: losses before tax of $120 million and after tax of $84 million) on our hedging instruments were taken directly to equity during the year in the foreign currency translation reserve.

Refer to note 17 Table I and Table J for the value of our derivatives designated as hedges of net foreign investments.

(c) Hedge relationships

The following tables provide additional context around our hedge transactions and in particular describes how we arrive at our economic residual risk position as a result of the hedges executed. It should be noted that the economic residual position in each of the following tables will not be equal to the carrying values.

Table H and Table I describe each of our hedge relationships, using cross currency and interest rate swaps as the hedging instruments and comprise effective economic relationships based on contractual face value amounts and cash flows, including hedge relationships that have been de-designated for hedge accounting purposes and foreign denominated borrowings that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to hedge our offshore foreign denominated borrowings and our offshore investment in Hong Kong CSL Limited.

Outlined in the following tables is the pre hedge underlying exposure, each leg of our cross currency and interest rate swaps and the end post hedge position. This post hedge position represents our net final currency and interest positions and is represented in our residual economic position as described in note 17 Table H.

18. Financial risk management (continued)

(c) Hedge relationships (continued)

Table H — **Telstra Group - 30 June 2010**

	Face value	Derivative hedging instruments - cross currency and interest rate swaps						Final currency & interest positions	
		Notional / Face value						Notional / Face Value	
	Pre hedge underlying exposure	Interest rate swap receive fixed / (pay) float	Cross currency swap receive / (pay) float	Cross currency swap receive fixed	Cross currency swap receive / (pay) float	Cross currency swap pay fixed	Interest rate swap receive float / (pay) fixed	(Pay) / receive float	Pay fixed
	Native currency	Native currency			Final leg - Australian dollar			Australian dollar	
	$m	$m	$m	$m	$m	$m	$m	$m	$m
In hedge relationships									
Offshore borrowings - fixed									
Swiss francs	(550)	(550)	550	-	(599)	-	(328)	(271)	(328)
Euro	(3,500)	(3,500)	3,500	-	(5,679)	-	(3,679)	(2,000)	(3,679)
British pound	(200)	(200)	200	-	(584)	-	(360)	(224)	(360)
Hong Kong dollar	(330)	-	-	330	(50)	-	-	(50)	-
Japanese yen	(43,000)	-	-	43,000	(465)	(163)	(348)	(117)	(511)
United States dollar	(670)	(500)	500	170	(1,177)	-	(550)	(627)	(550)
Offshore borrowings - floating									
Australian dollar	(250)	-	-	-	-	-	(250)	-	(250)
Euro	(1,500)	(1,500)	1,500	-	(2,488)	-	-	(2,488)	-
Japanese yen	(3,000)	-	3,000	-	(47)	-	-	(47)	-
United States dollar	(791)	-	791	-	(806)	(106)	-	(806)	(106)
Domestic loans - floating									
Australian dollar	(275)	-	-	-	-	-	(275)	-	(275)
Net foreign investments									
Hong Kong dollar	-	-	(4,200)	-	685	-	-	685	-
					(11,210)	(269)	(5,790)	(5,945)	(6,059)

18. Financial risk management (continued)

(c) Hedge relationships (continued)

Table I **Telstra Group - 30 June 2009**

	Face value	Derivative hedging instruments - cross currency and interest rate swaps						Final currency & interest positions	
		Notional / Face value						Notional / Face Value	
	Pre hedge underlying exposure	Interest rate swap receive fixed / (pay) float	Cross currency swap receive / (pay) float	Cross currency swap receive fixed	Cross currency swap receive / (pay) float	Cross currency swap pay fixed	Interest rate swap receive float / (pay) fixed	(Pay) / receive float	Pay fixed
	Native currency	Native currency			Final leg - Australian dollar			Australian dollar	
	$m	$m	$m	$m	$m	$m	$m	$m	$m
In hedge relationships									
Offshore borrowings - fixed									
Swiss francs	(550)	(550)	550	-	(599)	-	(328)	(271)	(328)
Euro	(4,000)	(4,000)	4,000	-	(6,669)	-	(3,640)	(3,029)	(3,640)
British pound	(200)	(200)	200	-	(584)	-	(360)	(224)	(360)
Japanese yen	(46,000)	-	-	46,000	(512)	(163)	(348)	(164)	(511)
United States dollar	(670)	(500)	500	170	(1,177)	-	(550)	(627)	(550)
Offshore borrowings - floating									
Australian dollar	(250)	-	-	-	-	-	(250)	-	(250)
Japanese yen	(650)	(500)	650	-	(1,026)	-	-	(1,026)	-
United States dollar	(791)	-	791	-	(806)	(106)	-	(806)	(106)
Domestic loans - floating									
Australian dollar	(275)	-	-	-	-	-	(275)	-	(275)
Net foreign investments									
Hong Kong dollar	4,200	-	(4,200)	-	680	-	-	680	-
					(10,693)	(269)	(5,751)	(5,467)	(6,020)

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(c) Hedge Relationships (continued)

Table J describes each of our hedge relationships, where forward foreign currency exchange contracts are used as the hedging instruments. These relationships comprise effective economic relationships based on contractual face value amounts and cash flows, including relationships that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to economically hedge our promissory notes, forecast transactions denominated in foreign currency, foreign currency trade and other liabilities.

Outlined in the following table is the pre hedge underlying exposure, each leg of the forward foreign currency contract and the end post hedge position. This post hedge position represents our net final currency positions and is represented in our residual economic position as described in note 17 Table H.

Table J — **Telstra Group**

	Derivative hedging instruments - forward foreign currency contracts							
	Face value		Notional value				Average exchange rate	
	Pre hedge underlying exposure (payable)		Forward contract receive		Forward contract pay - final leg			
	Native Currency		Native currency		Australian dollars			
	2010 $m	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010**	2009
Forward contracts hedging interest bearing debt								
Promissory notes								
United States dollar - contractual maturity 2 months (2009: 0-3 months)	**(60)**	-	**60**	-	**(70)**	-	**0.8574**	-
New Zealand dollars - contractual maturity nil (2009: 3-12 months)	**-**	(20)	**-**	20	**-**	(18)	**-**	1.13310
Loans from wholly owned controlled entities								
British pounds sterling - contractual maturity 0-3 months (2009: 0-3 months)	**(5)**	(3)	**5**	3	**(10)**	(6)	**0.5883**	0.46806
New Zealand dollars - contractual maturity 0- 3 months (2009: 0-3 months)	**(317)**	(253)	**317**	253	**(243)**	(200)	**1.2527**	1.26368
United States dollars - contractual maturity 0- 3 months (2008: 0-3 months)	**(16)**	(22)	**16**	22	**(17)**	(28)	**0.8716**	0.78608
Forward contracts hedging forecast purchases and other liabilities								
Forecast transactions								
United States dollar - contractual maturity 0-24 months (2008: 0-12 months) (i)	**(581)**	(495)	**581**	495	**(695)**	(709)	**0.8447**	0.69761
Euro - contractual maturity 5 - 12 months (2009: 0 - 12 months)	**(2)**	(2)	**2**	2	**(3)**	(4)	**0.6841**	0.55541
Hong Kong dollar - contractual maturity nil (2009: 0-3 months)	**-**	(3)	**-**	3	**-**	(1)	**-**	5.98057
Trade and other liabilities - non interest bearing								
United states dollars- contractual maturity 0-38 months (2009: 0-12 months) (i)	**(144)**	(63)	**144**	63	**(173)**	(79)	**0.8318**	0.79123
Euro - contractual maturity nil (2009: 0 - 3 months)	**-**	(2)	**-**	2	**-**	(4)	**-**	0.57435
					(1,211)	(1,049)		

(i) The carrying value of our forward foreign currency contracts with a contractual maturity of greater than 12 months is not material and have been included within current assets and current liabilities.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(c) Hedge Relationships (continued)

Table K describes our hedge relationships where offshore loans and promissory notes are used as the hedging instruments. These hedging instruments are used to hedge our net foreign investment in TelstraClear Limited. Outlined in the following table is the pre hedge underlying exposure, the face value of the hedging instruments (New Zealand denominated borrowings and promissory notes) and the end post hedge position and is represented in our residual economic position as described in note 17 Table H.

Table K

	Non-derivative hedging instruments					
	Face value					
	Hedged amount (i)		Offshore loans and promissory notes (ii)			
	New Zealand dollars		New Zealand dollars (payable)		Australian dollars (payable)	
	2010 $m	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Net foreign investments						
TelstraClear Ltd (New Zealand dollars).	**609**	612	**(609)**	(612)	**(494)**	(492)

(i) Amount hedged represents portion of carrying value of net assets.

(ii) At 30 June 2010 the Australian dollar face value of offshore loans was $288 million (2009: $205 million) and the Australian dollar value of promissory notes was $206 million (2009: $287 million).

Notes to the Financial Statements (continued)

19. Share capital

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Contributed equity	**5,793**	5,793
Share loan to employees	**(77)**	(87)
Shares held by employee share plans (i)	**(80)**	(165)
Net services received under employee share plans (i)	**(46)**	35
	5,590	5,576

(i) During the year $83 million (2009: nil) was contributed as a non-repayable loan to Growthshare by Telstra Corporation Limited.

Contributed equity

Our contributed equity represents our authorised and issued fully paid ordinary shares. Each of our fully paid ordinary shares carries the right to one vote at a meeting of the company. Holders of our shares also have the right to receive dividends and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the company winding up.

We have 12,443,074,357 (30 June 2009: 12,443,074,357) authorised fully paid ordinary shares on issue.

Share loan to employees

The share loan to employees account represents the outstanding balance of the non recourse loans provided to our employees under the Telstra Employee Share Ownership Plan Trusts (TESOP 97 and TESOP 99). Refer to note 27 for further details regarding these plans.

Shares held by employee share plan trusts

The shares held by employee share plan trusts account represents the cost of shares held by the Telstra Growthshare Trust (Growthshare) in Telstra Corporation Limited. The purchase of these shares has been fully funded with contributions and intercompany loans from Telstra Corporation Limited. As at 30 June 2010 the number of shares totalled 33,005,592 (2009: 33,466,467). These shares are excluded from the calculation of basic and diluted earnings per share. Refer to note 3 for further details.

Net services received under employee share plans

The net services received under the employee share plans account is used to record the cumulative value of our options, performance rights, restricted shares, incentive shares, direct shares and ownshares issued under Growthshare. Contributions by Telstra Corporation Limited to Growthshare are also included in this account.

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows

	Note	Telstra Group Year ended 30 June 2010 $m	2009 $m
(a) Reconciliation of profit to net cash provided by operating activities			
Profit for the year		**3,940**	4,076
Add / (subtract) the following transactions			
Depreciation and amortisation	7	**4,346**	4,390
Finance income	6	**(67)**	(67)
Finance costs	7	**1,030**	967
Distribution from FOXTEL Partnership	6	**(60)**	(100)
Share based payments	7	**5**	23
Defined benefit plan expense	7	**249**	229
Net gain on disposal of property, plant and equipment		**(10)**	-
Net gain on disposal of intangibles		**(2)**	-
Net loss on disposal of investments		**9**	-
Share of net profits from jointly controlled and associated entities	26	**(2)**	(3)
Impairment losses (excluding inventories, trade and other receivables)	7	**210**	46
Reversal of impairment losses (excluding trade and other receivables)	7	**(1)**	(6)
Foreign exchange differences		**(1)**	16
Cash movements in operating assets and liabilities (net of acquisitions and disposals of controlled entity balances)			
Decrease/(increase) in trade and other receivables		**6**	(60)
(Increase)/decrease in inventories		**(71)**	47
Decrease/(increase) in prepayments and other assets		**22**	(68)
Increase in net defined benefit		**(352)**	(196)
Increase/(decrease) in trade and other payables		**262**	(113)
Decrease in revenue received in advance		**(72)**	(84)
Increase/(decrease) in net taxes payable		**380**	(65)
Decrease in provisions		**(130)**	(34)
Net cash provided by operating activities		**9,691**	8,998
(b) Cash and cash equivalents			
Cash at bank and on hand		**418**	462
Bank deposits, bills of exchange and promissory notes		**1,518**	919
Total cash and cash equivalents		**1,936**	1,381
Reconciliation to the statement of cash flows			
Cash and cash equivalents included in assets held for sale	12	**169**	-
Cash and cash equivalents in the statement of cash flows		**2,105**	1,381

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows (continued)

(c) Acquisitions

Fiscal 2010 acquisitions

Dotad Media Holdings Limited

On 23 February 2010, our controlled entity Telstra Robin Holdings Limited acquired 67% of the issued capital of Dotad Media Holdings Limited (Dotad), a company registered in British Virgin Islands, for a total consideration of $105 million, with $67 million of this consideration contingent upon the entity achieving certain pre-determined revenue and EBITDA targets over the next three fiscal years and $6 million deferred until February 2012. Total contingent consideration has been stated at its fair value and hedged to eliminate foreign exchange impacts. Costs of $2 million associated with the acquisition have been expensed.

Dotad owns 100% equity in LMobile Group which is China's leading mobile advertising business. They provide SMS, MMS and WAP advertising services to small and medium enterprises as well as large companies in mainland China.

The effect of the acquisition is detailed below:

	Dotad Media Holdings Limited	
	2010 $m	2010 $m
Consideration for acquisition		
Cash consideration for acquisition	32	
Contingent consideration for acquisition	67	
Deferred consideration for acquisition	6	
Total purchase consideration	105	
Cash balances acquired	(7)	
Contingent consideration	(67)	
Consideration deferred	(6)	
Outflow of cash on acquisition	25	
	Fair value	Carrying value
Assets/(liabilities) at acquisition date		
Cash and cash equivalents	7	7
Trade and other receivables	10	10
Property, plant and equipment	1	1
Intangible assets	26	1
Other assets	1	1
Trade and other payables	(2)	(2)
Income tax payable	(2)	(2)
Deferred tax liabilities	(6)	-
Net assets	35	16
Adjustment to reflect non-controlling interests	(11)	
Goodwill on acquisition	81	
	105	
Loss after non-controlling interests from acquisition date until 30 June 2010	(1)	

At 30 June 2010, we have estimated the fair value of the contingent consideration to be $67 million, which will become payable and is recorded as a liability within trade and other payables. The total contingent consideration is based on the assumption that all predetermined revenue and EBITDA targets are achieved and represents the maximum amount payable under the terms of the acquisition.

We have recognised goodwill of $81 million on acquisition of Dotad. The following factors contributed to the recognition of goodwill:

- forecast revenues and profitability; and
- strategic benefits to the operations of the Telstra Group.

We have identified and measured any significant intangible assets separately from goodwill on acquisition of Dotad.

At acquisition date the non-controlling interest recognised in Dotad of $11 million was measured based on the non-controlling interest's proportionate share of fair value of Dotad's identifiable net assets.

Since the date of acquisition, Dotad has contributed income of $11 million and profit before income tax expense of $0.26 million. If the acquisition had occurred on 1 July 2009, our adjusted consolidated income and consolidated profit before income tax expense for the year ended 30 June 2010 for the Telstra Group would have been $25,045 million and $5,545 million respectively.

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows (continued)

(c) Acquisitions (continued)

Fiscal 2009 acquisitions

Octave Investments Holdings Limited

On 9 February 2009, our controlled entity Telstra Octave Holdings Limited acquired 67% of the issued capital of Octave Investments Holdings Limited for a total consideration of $259 million including acquisition costs.

Octave Investments Holdings Limited acquired 100% of two businesses being Beauty Sunshine Investments Limited (ChinaM) and Sharp Point Group Limited (Sharp Point). ChinaM is a leading supplier of consumer mobile content and Sharp Point provides technical services for China Mobile's rapidly growing central mobile music platform.

The effect of the acquisition is detailed below:

	Octave Investments Holdings	
	2009 $m	2009 $m
Consideration for acquisition		
Initial cash consideration paid in fiscal 2009	185	
Additional cash consideration paid in fiscal 2010	70	
Costs of acquisition paid in fiscal 2009	4	
Total purchase consideration	259	
Cash balances acquired	(20)	
Total outflow of cash	239	
	Fair value	Carrying value
Assets/(liabilities) at acquisition date		
Cash and cash equivalents	20	20
Trade and other receivables	27	27
Property, plant and equipment	2	2
Intangible assets	156	4
Trade and other payables	(16)	(16)
Deferred tax liabilities	(38)	-
Net assets	151	37
Adjustment to reflect non-controlling interests	(50)	
Goodwill on acquisition	158	
	259	
Profit after non-controlling interests from acquisition date until 30 June 2009	10	

In fiscal 2009, we recognised contingent consideration of $103 million and recognised goodwill of $191 million on acquisition. In fiscal 2010 certain pre-determined revenue and EBITDA targets were achieved resulting in an additional $70 million payment of the contingent consideration. However, a pre-determined non-financial target was not met reducing the remaining contingent consideration balance by $21 million. This along with $11 million movement in foreign exchange and other minor adjustments resulted in a reduction in the acquisition goodwill by $33 million.

There are regulatory uncertainties in the industry in which Octave's businesses operate in China. Refer to note 21 Impairment for further details.

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows (continued)

(d) Disposals

Fiscal 2010 disposals

Universal Publishers (UP)

On 9 September 2009, our controlled entity Sensis Pty Ltd sold its 100% shareholding in Universal Publishers Pty Ltd for a total consideration of $3 million (net of cash balances of the disposed entity).

The effect of the disposal is detailed below:

	Universal Publishers	
	2010 $m	2010 $m
Consideration for disposal		
Cash consideration for disposal	3	
Cash balances disposed	-	
Inflow of cash on disposal	3	
	Fair value	Carrying value
Assets/(liabilities) at disposal date		
Cash and cash equivalents	-	-
Trade and other receivables	2	2
Property, plant and equipment	1	1
Intangible assets	3	3
Other assets	8	8
Trade and other payables	(2)	(2)
Net assets	12	
Loss on disposal	(9)	
	3	

On 30 April 2009, our controlled entity Telstra Service Solutions Holdings sold its 100% shareholding in KAZ Group Pty Limited and KAZ Technology Services Pty Limited for a total consideration of $205 million (net of cash balances of the disposed entities), with $8 million of this consideration deferred. This deferred consideration was received during fiscal 2010.

The cash flow effect on the Telstra Group of these two disposals is detailed below:

	Total disposals Year ended 30 June 2010 $m
Consideration for disposal	
Cash consideration for disposal	3
Deferred consideration received during the period for prior year disposals	8
Inflow of cash on disposal	11

Fiscal 2009 disposals

The following disposals occurred during fiscal 2009:

- On 2 July 2008, our controlled entity Telstra International HK Limited sold its 100% shareholding in Damovo Hong Kong Limited for nominal consideration; and
- On 30 April 2009, our controlled entity Telstra Service Solutions Holdings sold its 100% shareholding in KAZ Group Pty Limited and KAZ Technology Services Pty Limited for a total consideration of $205 million (net of cash balances of the disposed entities).

The cash flow effect on the Telstra Group of these disposals is detailed below:

	Total disposals Year ended 30 June 2009 $m
Consideration for disposal	
Total consideration on disposal	208
Cash and cash equivalents disposed of	(3)
	205
Total consideration on disposal	(8)
Inflow of cash on disposal	197

(e) Significant financing and investing activities that involve components of non cash

Acquisition of assets by means of finance leases

	Telstra Group Year ended 30 June	
	2010 $m	2009 $m
Acquisition of property, plant & equipment by means of finance leases	87	24

The table above represents those assets acquired during the period which do not impact cash as the acquisition was made via a finance lease.

Notes to the Financial Statements (continued)

21. Impairment

Cash generating units

For the purposes of undertaking our impairment testing, we identify cash generating units (CGUs). Our CGUs are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The carrying amount of our goodwill and intangible assets with an indefinite useful life are detailed below:

	Goodwill		Intangible assets with indefinite useful lives	
	As at 30 June		As at 30 June	
	2010 $m	2009 $m	**2010 $m**	2009 $m
CGUs				
CSL New World Group (a)	**932**	1,160	**-**	-
TelstraClear Group	**136**	134	**-**	-
Telstra Europe Group	**80**	93	**-**	-
Sensis Group (b)	**215**	215	**-**	-
Location Navigation (formerly Location Publishing Group)	**14**	15	**8**	10
Adstream Group	**24**	24	**-**	-
SouFun Group (c)	**-**	342	**-**	-
1300 Australia Pty Ltd	**16**	16	**12**	12
Sequel Group	**119**	126	**-**	-
Octave Group (d)	**116**	158	**-**	-
Dotad Group (e)	**87**	-	**-**	-
Telstra Entity CGU (f)(g)	**63**	63	**-**	337
	1,802	2,346	**20**	359

(a) As at 30 June 2010, the carrying value of our assets in the CSL New World Group CGU were tested for impairment based on value in use. This test resulted in an impairment charge of $168 million being recognised in the Telstra Group financial statements. The impairment arose as a result of insufficient growth in market share in the highly competitive market in Hong Kong resulting in a weaker outlook of future cash flows. As a result of the impairment and foreign exchange rate movements, the carrying amount of the CSL New World Group goodwill is $932 million which is equal to its recoverable amount.

(b) Our assessment of the Sensis Group CGU excludes Location Navigation Group, Adstream Group, SouFun Group, Sequel Group and Dotad Group that form part of the Sensis reportable segment. These CGUs are assessed separately.

(c) The SouFun Group has been classified as held for sale as at 30 June 2010, and we have reclassified the SouFun Group goodwill balance of $326 million as part of this reclassification. Refer to note 12 for details on non-current assets held for sale.

(d) As at 30 June 2010, the carrying value of our assets in the Octave Group were tested for impairment based on value in use. During fiscal 2010 there were significant changes in the regulatory environment in China in which the Octave Group operates. These changes are industry wide and it is not yet known with any certainty whether the changes are permanent or temporary, and it is uncertain as to whether or when these changes will be reversed. The future cash flow assumptions used in determining the recoverable amount of the Octave Group CGU incorporate our assessment of the risk that 50% of estimated future cash flows may not eventuate as a result of these regulatory changes. If this assumption is not correct and the future cash flows decline by a further 3% then the carrying value will equal the recoverable amount. Written confirmation is being sought from authorities in China as to the likely regulatory position as well as with the relevant contracting party regarding future possibilities.

(e) On 23 February 2010, our controlled entity Telstra Robin Holdings Limited acquired 67% of the issued capital of Dotad Media Holdings Limited (Dotad) for a total consideration of $105 million. Refer to note 20 for further details.

(f) The Telstra Entity CGU consists of our ubiquitous telecommunications infrastructure network in Australia, excluding the hybrid fibre coaxial (HFC) cable network that we consider not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications network are considered to be working together to generate our net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve delivery of our products and services.

(g) From 1 July 2009, the Trading Post mastheads have been assigned a finite life and are being amortised over a period of 5 years. As such, they are no longer subject to impairment testing unless an indication of impairment exists and are therefore excluded from the table above.

Notes to the Financial Statements (continued)

21. Impairment (continued)

Impairment testing

Investment CGUs

Our impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation.

Our assumptions for determining the recoverable amount of each asset and CGU are based on past experience and our expectations for the future. Our cash flow projections are based on five year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

We have used the following key assumptions in determining the recoverable amount of our CGUs to which goodwill or indefinite useful life intangible assets has been allocated:

	Discount rate (h)		Terminal value growth rate (i)	
	As at 30 June		As at 30 June	
	2010 %	2009 %	**2010 %**	2009 %
CSL New World Group	**10.5**	11.2	**2.0**	2.0
TelstraClear Group	**13.0**	13.0	**3.0**	3.0
Telstra Europe Group	**9.1**	9.5	**3.0**	3.0
Sensis Group	**12.8**	13.0	**3.0**	3.0
Location Navigation	**12.9**	13.9	**3.0**	3.0
Adstream Group	**13.0**	13.2	**3.0**	3.0
SouFun Group (c)	**-**	15.0	**-**	5.0
1300 Australia Pty Ltd	**13.0**	13.6	**3.0**	3.0
Sequel Group	**16.8**	17.3	**5.0**	5.0
Octave Group (d)	**17.0**	19.5	**5.0**	5.0
Dotad Group (e)	**19.4**	-	**5.0**	-

(h) Discount rate represents the pre tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk adjusted discount rate which is adjusted for specific risks relating to the CGU and the countries in which they operate.

(i) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGUs' long term performance in their respective markets. The terminal growth rates for the Australian CGUs are aligned at three percent.

Telstra Entity CGU and HFC Network

With the integration of TBS into the Telstra Entity CGU in fiscal 2009, we test this CGU for impairment on an annual basis.

The HFC network is only reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Our impairment testing of the Telstra Entity CGU as at 30 June 2010 compares the carrying value of the CGU with its recoverable amount determined using a value in use calculation and no impairment was identified. We have applied a pre tax discount rate of 14.3% to the cash flow projections of the CGU. The discount rate reflects the market determined, risk adjusted discount rate which was adjusted for specific risks relating to the CGU. The cash flows have been extrapolated over the weighted average remaining service life of our ubiquitous network of 8.69 years.

A significant level of uncertainty still currently exists given the non-binding Financial Heads of Agreement (FHoA) entered into on 20 June 2010 and further negotiations required between the Government, NBN Co and Telstra, which are complex and ultimately require both the Australian Competition and Consumer Commission (ACCC) and Telstra shareholder approval. We expect the trigger point for factoring in NBN related cashflows into our impairment model would be once final shareholder approval has been obtained, as prior to this there is not sufficient certainty that the proposed transaction in relation to the NBN, resulting from the FHoA, will go ahead or be in its current form. As at 30 June 2010, preliminary testing based on this FHoA in its current form indicates no impairment.

Notes to the Financial Statements (continued)

22. Expenditure commitments

	Telstra Group As at 30 June	
	2010 $m	2009 $m
(a) Capital expenditure commitments		
Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements:		
Property, plant and equipment commitments		
Within 1 year	**426**	577
Within 1 to 5 years	**192**	35
After 5 years	**4**	-
	622	612
Intangible assets commitments		
Within 1 year	**88**	59
Within 1 to 5 years	**258**	185
After 5 years	**38**	-
	384	244
(b) Operating lease commitments		
Future lease payments for non-cancellable operating leases not recorded in the financial statements:		
Within 1 year	**441**	423
Within 1 to 5 years	**1,079**	1,040
After 5 years	**781**	809
	2,301	2,272

Description of our operating leases

We have operating leases for the following types of assets:
- rental of land and buildings;
- rental of motor vehicles, caravan huts and trailers, and mechanical aids; and
- rental of personal computers, laptops, printers and other related equipment that are used in non communications plant activities.

The weighted average lease term is:
- 10 years for land and buildings;
- 2 years for motor vehicles, 4 years for light commercial vehicles and 7 to 12 years for trucks and mechanical aids; and
- 3 years for personal computers and related equipment.

The majority of our operating leases relate to land and buildings. We have several subleases with total minimum lease payments of $19 million (2009: $19 million) for the Telstra Group. Our property operating leases generally contain escalation clauses, which are fixed increases generally between 3% and 5%, or increases subject to the consumer price index or market rate. We do not have any significant purchase options.

Notes to the Financial Statements (continued)

22. Expenditure commitments (continued)

	Note	Telstra Group As at 30 June 2010 $m	2009 $m
(c) Finance lease commitments			
Within 1 year		**50**	38
Within 1 to 5 years		**84**	58
After 5 years		**25**	32
Total minimum lease payments		**159**	128
Future finance charges on finance leases		**(30)**	(33)
Present value of net future minimum lease payments		**129**	95
Included in the financial statements as:			
Current borrowings	17	**43**	31
Non current borrowings	17	**86**	64
Total finance lease liabilities	17	**129**	95

Description of our finance leases

We have finance leases for the following types of assets:
- property leases in our controlled entity, Telstra Europe Limited; and
- computer mainframes, computer processing equipment and other related equipment.

The weighted average lease term is:
- 24 years for the property leases with a remaining average life of 13 years; and
- 5 years for computer mainframes and associated equipment.

Interest rates for our finance leases are:
- property leases interest rate of 21.0%; and
- computer mainframes, computer processing equipment and associated equipment weighted average interest rate of 6.3%.

	Telstra Group As at 30 June 2010 $m	2009 $m
(d) Other commitments		
Other expenditure commitments, other than commitments dealt with in (a), (b) and (c) above, which have not been recorded in the financial statements are:		
Within 1 year	**451**	576
Within 1 to 5 years	**1,053**	1,013
After 5 years	**356**	515
	1,860	2,104

Our other expenditure commitments include contracts for printing, engineering and operational support services, information technology services and building maintenance.

Information regarding our share of our jointly controlled and associated entities' commitments is included in note 26.

Notes to the Financial Statements (continued)

23. Contingent liabilities and contingent assets

We have no significant contingent assets as at 30 June 2010. The details and maximum amounts (where reasonable estimates can be made) are set out below for our contingent liabilities.

Telstra Entity

Refer to note 30 for Telstra Entity contingent liabilities. There were no other contingent liabilities identified for the Telstra Group.

Other

3GIS Partnership

During fiscal 2005, Telstra OnAir Holdings Pty Ltd and its partner, Hutchison 3G Australia Pty Ltd (now known as Vodafone Hutchinson Australia Pty Ltd) entered into agreements relating to the occupation of premises to provide 3GSM radio access network services.

As we are subject to joint and several liability in relation to agreements entered into by the 3GIS Partnership, we would be contingently liable if our partners in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from the above agreements are $147 million (2009: $116 million).

ASIC deed of cross guarantee

A list of the companies that are part of our deed of cross guarantee appear in note 25. Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 25 for further information.

Notes to the Financial Statements (continued)

24. Post employment benefits

The employee superannuation schemes that we participate in or sponsor exist to provide benefits for our employees and their dependants after finishing employment with us. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes, or at rates determined by the actuaries for defined benefit schemes.

The defined contribution divisions receive fixed contributions and our legal or constructive obligation is limited to these contributions.

The present value of our obligations for the defined benefit plans are calculated by an actuary using the projected unit credit method. This method determines each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to calculate the final obligation.

Details of the defined benefit plans we participate in are set out below.

Telstra Superannuation Scheme (Telstra Super)

On 1 July 1990, Telstra Super was established and the majority of Telstra staff transferred into Telstra Super. The Telstra Entity and some of our Australian controlled entities participate in Telstra Super.

Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions of Telstra Super are closed to new members.

The defined benefit divisions provide benefits based on years of service and final average salary. Post employment benefits do not include payments for medical costs.

Contribution levels made to the defined benefit divisions are designed to ensure that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. The benefits received by members of each defined benefit division take into account factors such as the employees' length of service, final average salary, employer and employee contributions.

An actuarial investigation of this scheme is carried out at least every three years.

HK CSL Retirement Scheme

Our controlled entity, Hong Kong CSL Limited (HK CSL), participates in a superannuation scheme known as the HK CSL Retirement Scheme. This scheme was established under the Occupational Retirement Schemes Ordinance (ORSO) and is administered by an independent trustee. The scheme has three defined benefit sections and one defined contribution section. Actuarial investigations are undertaken annually for this scheme.

The benefits received by members of the defined benefit schemes are based on the employees' remuneration and length of service.

Measurement dates

For Telstra Super actual membership data as at 30 April was used to value precisely the defined obligations as at that date. Details of assets, benefit payments and other cash flows as at 31 May and contributions as at 30 June were also provided in relation to Telstra Super. These April and May figures were then rolled up to 30 June to allow for changes in the membership and actual asset return.

Actual membership data and asset values as at 31 May were used to precisely measure the defined benefit liability as at that date for the HK CSL Retirement Scheme. Details of contributions, benefit payments and other cash flows as at 30 June were also provided in relation to the HK CSL Retirement Scheme.

The fair value of the defined benefit plan assets and the present value of the defined benefit obligations as at the reporting date are determined by our actuary. The details of the defined benefit divisions are set out in the following pages.

Other defined contribution schemes

A number of our subsidiaries also participate in defined contribution schemes which receive employer and employee contributions based on a percentage of the employees' salaries. We made contributions to these schemes of $10 million for fiscal 2010 (2009: $26 million).

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(a) Net defined benefit plan (liability)/asset - historical summary

Our net defined benefit plan (liability)/asset recognised in the statement of financial position for the current and previous periods is determined as follows:

	Telstra Group As at 30 June				
	2010 $m	2009 $m	2008 $m	2007 $m	2006 $m
Fair value of defined benefit plan assets (b)	**2,546**	2,503	3,205	4,342	4,553
Present value of the defined benefit obligation (c)	**2,934**	2,847	3,048	3,646	3,675
Net defined benefit (liability)/asset before adjustment for contributions tax	**(388)**	(344)	157	696	878
Adjustment for contributions tax	**(69)**	(62)	25	118	151
Net defined benefit (liability)/asset at 30 June	**(457)**	(406)	182	814	1,029
Comprised of:					
Defined benefit asset	**7**	8	182	814	1,029
Defined benefit liability	**(464)**	(414)	-	-	-
	(457)	(406)	182	814	1,029
Experience adjustments:					
Experience adjustments arising on defined benefit plan assets - (loss)/gain	**(56)**	(593)	(525)	261	480
Experience adjustments arising on defined benefit obligations - gain/(loss)	**64**	72	41	69	(206)

(b) Reconciliation of changes in fair value of defined benefit plan assets

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Fair value of defined benefit plan assets at beginning of year	**2,503**	3,205
Expected return on plan assets	**195**	252
Employer contributions	**185**	99
Contributions tax	**(28)**	(15)
Member contributions	**53**	44
Notional transfer of funds for defined contribution benefits	**-**	(45)
Benefits paid (i)	**(288)**	(450)
Actuarial loss	**(56)**	(593)
Plan expenses after tax	**(12)**	(7)
Foreign currency exchange differences	**(6)**	13
Fair value of defined benefit plan assets at end of year	**2,546**	2,503

The actual return on defined benefit plan assets was 4.9% (2009: -11.6%) for Telstra Super and 10.4% (2009: -11.7%) for HK CSL Retirement Scheme

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(c) Reconciliation of changes in present value of wholly funded defined benefit obligation.

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Present value of defined benefit obligation at beginning of year	**2,847**	3,048
Current service cost	**124**	143
Interest cost	**158**	167
Member contributions	**42**	31
Benefits paid (i)	**(288)**	(450)
Actuarial (gain)/loss	**46**	(121)
Curtailment loss	**10**	14
Foreign currency exchange differences	**(5)**	15
Present value of wholly funded defined benefit obligation at end of year	**2,934**	2,847

(i) Benefits paid include $267 million (2009: $425 million) of entitlements (to exiting defined benefit members) which have been retained in Telstra Super but transferred to the defined contribution scheme.

For fiscal 2011, we expect to pay total benefit payments of $325 million (including benefits retained) to defined benefit members of Telstra Super.

(d) Amounts recognised in the income statement and in other comprehensive income

	Note	Telstra Group Year ended 30 June	
		2010 $m	2009 $m
The components of defined benefit plan expense recognised in the income statement within labour expenses are as follows:			
Current service cost		**124**	143
Interest cost		**158**	167
Expected return on plan assets		**(195)**	(252)
Member contributions		**(10)**	(13)
Curtailment loss		**10**	14
Plan expenses after tax		**12**	7
Notional transfer of funds for defined contribution benefits		**-**	45
Adjustment for contributions tax		**17**	21
		116	132
Employer contributions - defined contribution divisions		**133**	97
Total expense recognised in the income statement	7	**249**	229
Actuarial loss recognised directly in other comprehensive income		**(158)**	(553)
Cumulative actuarial losses recognised directly in other comprehensive income		**(250)**	(92)

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(e) Categories of plan assets

The weighted average asset allocation as a percentage of the fair value of total plan assets as at 30 June are as follows:

	Telstra Super		HK CSL Retirement Scheme	
	As at 30 June		As at 30 June	
	2010 %	2009 %	**2010 %**	2009 %
Asset allocations				
Equity instruments	**53**	32	**50**	59
Debt instruments	**2**	5	**48**	36
Property	**22**	25	**-**	-
Cash	**1**	3	**2**	5
Private equity	**14**	22	**-**	-
Infrastructure	**3**	5	**-**	-
International hedge funds	**5**	8	**-**	-
	100	100	**100**	100

Telstra Super's investments in debt and equity instruments include bonds issued by and shares in Telstra Corporation Limited. Refer to note 29 for further details.

(f) Principal actuarial assumptions

We used the following major assumptions to determine our defined benefit plan expense for the year ended 30 June:

	Telstra Super		HK CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2010 %	2009 %	**2010 %**	2009 %
Discount rate	**5.1**	5.5	**3.0**	3.8
Expected rate of return on plan assets (i)	**8.0**	8.0	**6.3**	6.3
Expected rate of increase in future salaries	**4.0**	4.0	**1.0-4.0**	4.5

We used the following major assumptions to determine our defined benefit obligations at 30 June:

	Telstra Super		HK CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2010 %	2009 %	**2010 %**	2009 %
Discount rate (ii)	**5.1**	5.5	**2.4**	3.0
Expected rate of increase in future salaries (iii)	**4.0**	2.9 - 4.0	**2.5 - 4.0**	1.0 - 4.0

(i) The expected rate of return on plan assets has been based on historical and future expectations of returns for each of the major categories of asset classes over the subsequent 10 year period, or longer. Estimates are based on a combination of factors including the current market outlook for interest rates, inflation, earnings growth and currency strength. To determine the aggregate return, the expected future return of each plan asset class is weighted according to the strategic asset allocation of total plan assets.

(ii) The present value of our defined benefit obligations is determined by discounting the estimated future cash outflows using a discount rate based on government guaranteed securities with similar due dates to these expected cash flows.

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(f) Principal actuarial assumptions (continued)

For Telstra Super we have used the 10-year Australian government bond rate as it has the closest term from the Australian bond market to match the term of the defined benefit obligations. We have not made any adjustment to reflect the difference between the term of the bonds and the estimated term of liabilities due to the observation that the current government bond yield curve is reasonably flat, implying that the yields from government bonds with a term less than 10 years are expected to be very similar to the extrapolated bond yields with a term of 12 to 13 years.

For the HK CSL Retirement Scheme we have extrapolated the 7 year and 10 year yields of the Hong Kong Exchange Fund Notes to 16 years to match the term of the defined benefit obligations.

(iii) Our assumption for the salary inflation rate for Telstra Super is 4% which is reflective of our long term expectation for salary increases. The salary inflation rate for HK CSL Retirement Scheme is 2.5% in fiscal 2011, 2.75% in fiscal 2012 and 3.25% in fiscal 2013 and 4.0% thereafter which reflects the long term expectations for salary increases.

(g) Employer contributions

Telstra Super

The funding deed we have with Telstra Super requires contributions to be made when the average vested benefits index (VBI) in respect of the defined benefit membership (the ratio of defined benefit plan assets to defined benefit members' vested benefits) of a calendar quarter falls to 103% or below. For the quarter ended 30 June 2010, the VBI was 86% (30 June 2009: 82%). In accordance with the funding deed we have paid contributions totalling $460 million for the year ended 30 June 2010 (30 June 2009: $260 million). This includes employer contributions to the accumulation divisions and employee pre and post-tax salary sacrifice contributions, which are excluded from the employer contributions in the reconciliations above. The current contribution rate for the defined benefit divisions of Telstra Super, effective June 2010, is 27% (June 2009: 27%).

The vested benefits, which forms the basis for determining our contribution levels under the funding deed, represents the total amount that Telstra Super would be required to pay if all defined benefit members were to voluntarily leave the fund on the valuation date. The VBI assesses the short term financial position of the plan. On the other hand the liability recognised in the statement of financial position is based on the projected benefit obligation (PBO), which represents the present value of employees' benefits assuming that employees will continue to work and be part of the fund until their exit. The PBO takes into account future increases in an employee's salary and provides a longer term financial position of the plan.

We will continue to monitor the performance of Telstra Super and reassess our employer contributions in light of actuarial recommendations. We expect to contribute approximately $460 million in fiscal 2011.

HK CSL Retirement Scheme

The contributions payable to the defined benefit divisions are determined by the actuary using the attained age normal funding actuarial valuation method.

Employer contributions made to the HK CSL Retirement Scheme for the financial year ended 30 June 2010 was $2 million (2009: $2 million). We expect to contribute $2 million to our HK CSL Retirement Scheme in fiscal 2011.

Annual actuarial investigations are currently undertaken for this scheme by Mercer Hong Kong Limited.

Notes to the Financial Statements (continued)

25. Investments in controlled entities

Below is a list of our investments in controlled entities.

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2010	2009	**2010**	2009
		$m	$m	**%**	%
Parent entity					
Telstra Corporation Limited (a)	Australia				
Controlled entities					
Telstra Finance Limited (a)	Australia	**-**	-	**100.0**	100.0
Telstra Corporate Services Pty Limited (b)	Australia	**-**	5	**-**	100.0
Transport Communications Australia Pty Ltd (b)	Australia	**-**	4	**-**	100.0
Telstra ESOP Trustee Pty Limited	Australia	**-**	-	**100.0**	100.0
Telstra Growthshare Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra Media Pty Limited	Australia	**393**	393	**100.0**	100.0
Telstra Multimedia Pty Limited (a)	Australia	**2,678**	2,678	**100.0**	100.0
Telstra International Limited (a)	Australia	**2**	2	**100.0**	100.0
Telstra Pay TV Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
Hypermax Holdings Pty Ltd (b)	Australia	**-**	8	**-**	100.0
Chief Entertainment Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra 3G Spectrum Holdings Pty Ltd	Australia	**302**	302	**100.0**	100.0
Telstra OnAir Holdings Pty Ltd.	Australia	**478**	478	**100.0**	100.0
Converged Networks Pty Ltd (b)	Australia	**-**	1	**-**	100.0
Telstra Business Systems Pty Ltd (a)	Australia	**69**	69	**100.0**	100.0
Telstra Plus Pty Ltd.	Australia	**-**	-	**100.0**	100.0
Clayton 770 Pty Ltd	Australia	**-**	-	**100.0**	100.0
Research Resources Pty Ltd (previously held by Sensis)	Australia	**-**	-	**100.0**	100.0
1300 Australia Pty Ltd	Australia	**20**	20	**85.0**	85.0
• Alpha Phone Words Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra Communications Limited (a)	Australia	**29**	29	**100.0**	100.0
• Telecom Australia (Saudi) Company Limited (b)(c)(d)(e)	Saudi Arabia	**-**	-	**50.0**	50.0
Telstra Rewards Pty Ltd (b)	Australia	**-**	10	**-**	100.0
Communications Network Holdings Pty Ltd (b)	Australia	**-**	4	**-**	100.0
• Advanced Digital Communications (WA) Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Western Communication Solutions Pty Ltd (b)	Australia	**-**	-	**-**	100.0
Adstream (Aust) Pty Ltd	Australia	**23**	23	**64.4**	64.4
• Adstream Limited	New Zealand	**-**	-	**100.0**	100.0
• Quickcut (Aust) Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra Holdings Pty Ltd (a)	Australia	**7,307**	7,307	**100.0**	100.0
• Telstra International Holdings Limited	Bermuda	**-**	-	**100.0**	100.0
• SouFun Holdings Ltd (c)(d)(h)	Cayman Islands	**-**	-	**55.0**	55.0
• SouFun.com (Shenzhen) Ltd (c)(h)	China	**-**	-	**100.0**	100.0
• SouFun.com (Tianjin) Ltd (c)(h)	China	**-**	-	**100.0**	100.0
• SouFun.com (Chongqing) Ltd (b)(c)(h)	China	**-**	-	**100.0**	100.0
• SouFun.com (Guangzhou) Ltd (c)(h)	China	**-**	-	**100.0**	100.0
• SouFun.com (Shanghai) Ltd(c)(h)	China	**-**	-	**100.0**	100.0
• Beijing SouFun Information Consultancy Co. Ltd (c)(h)	China	**-**	-	**90.0**	90.0
• China Index Academy Limited (c)(h)	Hong Kong	**-**	-	**100.0**	100.0
• Selovo Investments Limited (c)(h)	British Virgin Islands	**-**	-	**100.0**	100.0
• Max Impact Investments Limited (c)(h)	Hong Kong	**-**	-	**100.0**	100.0
• Zhongzhishizheng Data Technology (Beijing) Co. Ltd (c)(h)	China	**-**	-	**100.0**	100.0

(continued over page)

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2010	2009	**2010**	2009
Controlled entities (continued)		**$m**	$m	**%**	%
• Pendiary Investments Limited (c)(h)	British Virgin Islands	**-**	-	**100.0**	100.0
• Bravo Work Investments Limited (c)(h)	Hong Kong	**-**	-	**100.0**	100.0
• SouFun Media Technology (Beijing) Co. Ltd (c)(h)	China	**-**	-	**100.0**	100.0
• SouFun Network Technology (Beijing) Co. Limited (c)(h)	China	**-**	-	**100.0**	100.0
• Telstra Technology Services (Hong Kong) Limited (formerly KAZ Computer Services Hongkong Limited) (e)	Hong Kong	**-**	-	**75.0**	75.0
• Sequel Limited (c)(d)	Cayman Islands	**-**	-	**55.0**	55.0
• Cheerbright International Holdings Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Beijing Cheerbright Technologies Co. Ltd (c)	China	**-**	-	**100.0**	100.0
• China Topside Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Beijing Topside Technologies Co. Ltd (c)	China	**-**	-	**100.0**	100.0
• Norstar Advertising Media Holdings Limited (c)	Cayman Islands	**-**	-	**100.0**	100.0
• Shengtuo Shidai (Beijing) Information Technology Co. Ltd (formerly Beijing Gold Norstar Information Technology Co. Ltd) (c)	China	**-**	-	**100.0**	100.0
• Union Tough Advertisement Limited (c)	Hong Kong	**-**	-	**100.0**	100.0
• Haocheng Shidai (Beijing) Advertisement Co. Ltd (c)(d)	China	**-**	-	**30.0**	30.0
• Telstra Asia Holdings Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Telstra Octave Holdings Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Octave Investments Holdings Limited (c)(d)	British Virgin Islands	**-**	-	**67.0**	67.0
• Beauty Sunshine Investments Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Beijing Wireless Permanence Technology Company Limited (c)	China	**-**	-	**100.0**	100.0
• Sharp Point Group Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Beijing Liang Dian Shi Jian Technology Company Limited (c)	China	**-**	-	**100.0**	100.0
• Telstra Robin Holdings Limited (c)(f)	British Virgin Islands	**-**	-	**100.0**	-
• Dotad Media Holdings Limited (c)(d)(f)	British Virgin Islands	**-**	-	**67.0**	-
• LMobile (China) Holdings Limited (c)(f)	Hong Kong	**-**	-	**100.0**	-
• Beijing Daote Aidi Internet Techology Company (c)(f)	China	**-**	-	**100.0**	-
• Reach Holdings Limited (c)(e)	Mauritius	**-**	-	**100.0**	100.0
• Reach Network India Private Limited (c)	India	**-**	-	**99.9**	99.9
• Reach Data Services India Private Limited (c)	India	**-**	-	**99.9**	99.9
• Beijing Australia Telecommunications Technical Consulting Services Company Limited (c)	China	**-**	-	**100.0**	100.0
• Telstra Holdings (Bermuda) No. 2 Limited	Bermuda	**-**	-	**100.0**	100.0
• CSL New World Mobility Limited	Bermuda	**-**	-	**76.4**	76.4
• New World PCS Holdings Limited	Cayman Islands	**-**	-	**100.0**	100.0
• CSL Limited	Hong Kong	**-**	-	**100.0**	100.0
• Hong Kong CSL Limited	Hong Kong	**-**	-	**100.0**	100.0
• Big Bang Holdings Limited	Hong Kong	**-**	-	**100.0**	100.0
• One2Free PersonalCom Limited	Hong Kong	**-**	-	**100.0**	100.0
• Integrated Business Systems Limited	Hong Kong	**-**	-	**100.0**	100.0
• New World PCS Limited	Hong Kong	**-**	-	**100.0**	100.0
• New World Mobility Limited (e)	Hong Kong	**-**	-	**60.0**	60.0
• New World 3G Limited	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Holdings (Bermuda) No 1 Limited	Bermuda	**-**	-	**100.0**	100.0

(continued over page)

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2010	2009	**2010**	2009
Controlled entities (continued)		**$m**	$m	**%**	%
• Telstra International HK Limited	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Japan Retail KK	Japan	**-**	-	**100.0**	100.0
• Telstra International Holdings No. 2 Limited	Bermuda	**-**	-	**100.0**	100.0
• Telstra Singapore Pte Ltd	Singapore	**-**	-	**100.0**	100.0
• Telstra Global Limited	United Kingdom	**-**	-	**100.0**	100.0
• PT Telstra Nusantara (b)	Indonesia	**-**	-	**100.0**	100.0
• Telstra Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (Cable Telecom) Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (PSINet)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (CTE) Limited	United Kingdom	**-**	-	**100.0**	100.0
• Cable Telecommunication Limited	United Kingdom	**-**	-	**100.0**	100.0
• PSINet Datacentre UK Limited	United Kingdom	**-**	-	**100.0**	100.0
• Inteligen Communications Limited	United Kingdom	**-**	-	**100.0**	100.0
• PSINet Jersey Limited	Jersey	**-**	-	**100.0**	100.0
• PSINet Hosting Centre Limited	Jersey	**-**	-	**100.0**	100.0
• Cordoba Holdings Limited	Jersey	**-**	-	**100.0**	100.0
• London Hosting Centre Limited	Jersey	**-**	-	**100.0**	100.0
• Telstra Inc	United States	**-**	-	**100.0**	100.0
• Telstra India (Private) Limited (c)	India	**-**	-	**100.0**	100.0
• Telstra NZ Limited	New Zealand	**-**	-	**100.0**	100.0
• Telstra New Zealand Holdings Limited	New Zealand	**-**	-	**100.0**	100.0
• TelstraClear Limited	New Zealand	**-**	-	**100.0**	100.0
• CLEAR Communications Limited	New Zealand	**-**	-	**100.0**	100.0
• Telstra Telecommunications Private Ltd (c)(d)(f)	India	**-**	-	**49.0**	-
Network Design and Construction Limited (a)	Australia	**20**	20	**100.0**	100.0
• NDC Global Holdings Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• NDC Telecommunications India Private Limited (b)	India	**-**	-	**-**	98.0
• PT NDC Indonesia (b)	Indonesia	**-**	-	**-**	95.0
• NDC Global Services Pty Limited (a)	Australia	**-**	-	**100.0**	100.0
• NDC Telecommunications India Private Limited (b)	India	**-**	-	**-**	2.0
Telstra Services Solutions Holdings Limited (a)	Australia	**514**	514	**100.0**	100.0
Sensis Pty Ltd (a)	Australia	**851**	851	**100.0**	100.0
• Just Listed Pty Limited (b)	Australia	**-**	-	**-**	100.0
• Location Navigation Pty Ltd	Australia	**-**	-	**100.0**	100.0
• CitySearch Australia Pty Ltd	Australia	**-**	-	**100.0**	100.0
• Trading Post (Australia) Holdings Pty Ltd	Australia	**-**	-	**100.0**	100.0
• Trading Post Group Pty Limited	Australia	**-**	-	**100.0**	100.0
• The Melbourne Trading Post Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• The National Trading Post Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• Australian Retirement Publications Pty Limited (b)	Australia	**-**	-	**-**	100.0
• Collectormania Australia Pty Ltd (b)	Australia	**-**	-	**-**	100.0
• The Personal Trading Post Pty Limited	Australia	**-**	-	**100.0**	100.0
• Auto Trader Australia Pty Ltd (i)	Australia	**-**	-	**100.0**	100.0
• WA Auto Trader Pty Ltd (i)	Australia	**-**	-	**100.0**	100.0
• Trading Post (TCA) Pty Limited (b)	Australia	**-**	-	**100.0**	100.0
• Trading Post Australia Pty Limited (b)	Australia	**-**	-	**100.0**	100.0

(continued over page)

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2010	2009	**2010**	2009
Controlled entities (continued)		**$m**	$m	**%**	%
• Sensis Holdings Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Telstra Sensis (Beijing) Co. Limited (c)(e)	China	**-**	-	**100.0**	100.0
• Universal Publishers Pty Limited (a)(g)	Australia	**-**	-	**-**	100.0
• Sensis (Victoria) Pty Ltd (b)	Australia	**-**	-	**-**	100.0
Investment in controlled entities		**12,686**	12,718		
Allowance for impairment in value		**(7,376)**	(7,189)		
Total investment in controlled entities		**5,310**	5,529		

#The amounts recorded are before any provision for reduction in value.

(a) ASIC deed of cross guarantee financial information

A new deed of cross guarantee was entered into on 17 May 2010, as defined in ASIC Class Order 98/1418 (Class Order). This deed replaces the previous deed of cross guarantee entered into on 28 June 2006.

The following entities were released from the obligations under the previous deed by way of a revocation deed on 17 May 2010:

- Telstra Corporation Limited;
- Telstra Multimedia Pty Limited;
- Telstra International Limited;
- Telstra Communications Limited;
- Telstra Holdings Pty Ltd;
- Network Design and Construction Limited;
- Telstra Services Solutions Holdings Limited;
- Sensis Pty Ltd;
- Sensis Holdings Pty Ltd;
- Telstra Pay TV Pty Ltd;
- Telstra Business Systems Pty Ltd;
- NDC Global Services Pty Limited; and
- NDC Global Holdings Pty Limited.

Universal Publishers Pty Limited was sold during the year and removed from the deed by way of notice of disposal on 8 October 2009. Refer to (g) below for further details.

The following entities form part of the new deed of cross guarantee:

- Telstra Corporation Limited;
- Telstra Multimedia Pty Limited;
- Telstra International Limited;
- Telstra Communications Limited;
- Telstra Holdings Pty Ltd;
- Network Design and Construction Limited;
- Telstra Services Solutions Holdings Limited;
- Sensis Pty Ltd;
- Sensis Holdings Pty Ltd;
- Telstra Pay TV Pty Ltd; and
- Telstra Business Systems Pty Ltd.

Telstra Finance Limited is trustee of the closed group. However, it is not a group entity under the Deed.

The relevant group entities under the deed:

- form a closed group and extended closed group as defined in the ASIC Class Order 98/1418 (Class Order);
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001; and
- guarantee the payment in full of the debts of the other parties to the deed in the event of their winding up.

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(a) ASIC deed of cross guarantee financial information (continued)

The consolidated income statement and statement of financial position of the closed group is presented according to the Class Order as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

Closed group statement of financial position	Closed group As at 30 June	
	2010 $m	2009 $m
Current assets		
Cash and cash equivalents	**1,628**	1,035
Trade and other receivables	**3,694**	3,715
Inventories	**280**	226
Derivative financial assets	**173**	128
Current tax receivables	**-**	100
Prepayments	**162**	244
Total current assets	**5,937**	5,448
Non current assets		
Trade and other receivables	**1,299**	1,193
Inventories	**17**	18
Investments - accounted for using the equity method	**15**	13
Investments - other	**3,361**	3,545
Property, plant and equipment	**21,506**	22,423
Intangible assets	**5,757**	5,543
Derivative financial assets	**592**	1,073
Non current tax receivables	**321**	172
Total non current assets	**32,868**	33,980
Total assets	**38,805**	39,428
Current liabilities		
Trade and other payables	**3,422**	3,223
Provisions	**384**	448
Borrowings	**2,957**	2,390
Derivative financial liabilities	**387**	111
Current tax payables	**317**	220
Revenue received in advance	**1,015**	1,062
Total current liabilities	**8,482**	7,454
Non current liabilities		
Trade and other payables	**49**	53
Provisions	**718**	750
Borrowings	**12,356**	15,361
Derivative financial liabilities	**1,511**	819
Deferred tax liabilities	**1,833**	1,506
Revenue received in advance	**338**	353
Defined benefit liability	**464**	414
Total non current liabilities	**17,269**	19,256
Total liabilities	**25,751**	26,710
Net assets	**13,054**	12,718
Equity		
Share capital	**5,590**	5,576
Reserves	**161**	96
Retained profits	**7,303**	7,046
Equity available to the closed group	**13,054**	12,718

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(a) ASIC deed of cross guarantee financial information (continued)

Closed group income statement and retained profits reconciliation	Closed group Year ended 30 June 2010 $m	2009 $m
Income		
Revenue (excluding finance income)	**22,991**	23,384
Other income	**97**	104
	23,088	23,488
Expenses		
Labour	**3,386**	3,803
Goods and services purchased	**4,558**	4,333
Other expenses	**4,843**	5,066
	12,787	13,202
Share of net profit from jointly controlled and associated entities	**2**	3
	12,785	13,199
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**10,303**	10,289
Depreciation and amortisation	**4,019**	3,832
Earnings before interest and income tax expense (EBIT)	**6,284**	6,457
Finance income	**129**	124
Finance costs	**1,011**	953
Net finance costs	**882**	829
Profit before income tax expense	**5,402**	5,628
Income tax expense	**1,585**	1,549
Profit for the year available to the closed group	**3,817**	4,079
Retained profits at the beginning of the financial year available to the closed group	**7,046**	6,762
Actuarial loss on defined benefit plans	**(155)**	(540)
Income tax on actuarial loss on defined benefit plans	**46**	163
Effect on retained profits from removal of entities from the closed group	**23**	56
Total available for distribution	**10,777**	10,520
Dividends paid	**(3,474)**	(3,474)
Retained profits at the end of the financial year available to the closed group	**7,303**	7,046

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(b) Liquidations and deregistrations

These companies were liquidated or deregistered during the year.

At 30 June 2010, the following entities have applied to the ASIC for deregistration:

- Trading Post Australia Pty Ltd; and
- Trading Post (TCA) Pty Ltd.

At 30 June 2010, the following entities were in voluntary liquidation:

- Telecom Australia (Saudi) Co. Ltd; and
- PT Telstra Nusantara.

(c) Controlled entities with different balance dates

The following companies have balance dates that differ from our balance date of 30 June for fiscal 2010:

- Telecom Australia (Saudi) Company Limited - 31 December;
- Beijing Australia Telecommunications Technical Consulting Services Company Limited - 31 December;
- Telstra India (Private) Limited - 31 March;
- SouFun Holdings Limited and its controlled entities - 31 December;
- Sequel Limited and its controlled entities - 31 December;
- Telstra Sensis (Beijing) Co Limited - 31 December;
- Telstra Asia Holdings Limited and its controlled entities - 31 December;
- Reach Holdings Limited - 31 December;
- Reach Network India Private Limited - 31 March;
- Reach Data Services India Private Limited - 31 March; and
- Telstra Telecommunications Private Ltd - 31 March.

Financial reports prepared as at 30 June are used for consolidation purposes.

(d) Controlled entities in which our equity ownership is less than or equal to 50%

- We have no direct equity interest in the following entities within the SouFun Group:

  - Beijing Jia Tian Xia Advertising Co. Ltd;
  - Beijing SouFun Internet Information Service Co. Ltd;
  - Beijing SouFun Science and Technology Development Co. Ltd;
  - Beijing China Index Information Co. Ltd;
  - Shanghai Jia Biao Tang Advertising Co. Ltd;
  - Shanghai SouFun Advertising Co. Ltd;
  - Beijing Century Jia Tian Xia Technology Development Co. Ltd;
  - Shanghai China Index Consultancy Co. Ltd; and
  - Tianjin Jia Tian Xia Advertising Co. Ltd.

  The purpose of these entities is to hold the licenses and approvals required to operate SouFun Holdings Limited's internet content provision and advertising business respectively. SouFun Holdings Limited has the decision-making powers to control these entities. SouFun Holdings Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our group financial report.

- We have no direct equity interest in the following entities within the Sequel Group:

  - Beijing Haochen Domain Information Technology Co. Ltd;
  - Lianhe Shangqing (Beijing) Advertisement Co. Ltd;
  - Beijing Autohome Information Technology Co. Ltd;
  - Beijing POP Information Technology Co. Ltd;
  - Shijiazhuang Xinfeng Advertising Co. Ltd; and
  - Shijiazhuang Xinrong Advertising Co. Ltd.

  In addition, our controlled entity Union Tough Advertisement Limited has a 30% direct interest in Haocheng Shidai (Beijing) Advertisement Co. Ltd.

  The purpose of these entities is to hold the licenses and approvals required to operate Sequel Limited's internet content provision and advertising business respectively. Sequel Limited has the decision-making powers to control these entities. Sequel Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our group financial report.

- We have no direct equity interest in the following entities within the Octave Investments Holdings Limited Group:

  - Beijing Jun Yuan Zhi Ye Information Technology Company Limited;
  - Beijing Shan Lian Hu Dong Network Technology Company Limited;
  - Beijing Shan Lian Chuang Yi Digital Technology Company Limited;
  - Beijing Chuang Yi He Xian Technology and Trading Company Limited;
  - Beijing Shan Lian Xun Tong Digital Technology Company Limited;
  - Hunan Zhi Yuan Information Network Technology Development Co Limited;
  - Beijing Xunjie Yingxiang Network Technology Company Ltd;
  - Beijing Rui Xin Zai Xian System Technology Company Limited;
  - Guangzhou Rui Yin Digital Technology Company Limited;
  - Shijiazhuang Ruixin Yin Shang Digital Technology Company Limited; and
  - Wuhan Rui Yin Zai Xian Digital Technology Company Limited.

  The purpose of these entities is to hold the licenses and approvals required to operate Octave Investments Holdings Limited's internet content provision and mobile value added services. Octave Investments Holdings Limited has the decision-making powers to control these entities. Octave Investments Holdings Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our group financial report.

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(d) Controlled entities in which our equity ownership is less than or equal to 50% (continued)

- We have no direct equity interest in the following entities within the Dotad Group:

  - Beijing Baifen Tonglian Media Technology Co. Ltd;
  - Beijing Baifen Tonglian Information Technology Co. Ltd;
  - Hunan Sanxiang Huasheng New Media Co. Ltd;
  - Wuxi Xinwen Mobile New Media Development Co. Ltd;
  - Beijing Huaxin Hezhong Information Technology Co. Ltd;
  - Shenyang Press Wireless Media Co. Ltd;
  - Shenzhen Huaxin Interactive Technology Co. Ltd;
  - Wanzhong Liandong Communication Technology (Beijing) Co. Ltd; and
  - Shenzhen Baifen Tonglian Information Technology Co. Ltd.

  The purpose of these entities is to hold the licenses and approvals required to operate Dotad Media Holdings Limited's mobile advertising business. Dotad Media Holdings Limited has the decision making powers to control these entities. Dotad Media Holdings Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our group financial report.

- We own 50% of the issued capital of Telecom Australia (Saudi) Company Limited. We can exercise control over the Board of Directors of this entity in perpetuity, and therefore we have consolidated the financial results, position and cash flows of this entity into our group financial report. This entity is currently in voluntary liquidation.

- We own 49% of the issued capital of Telstra Telecommunications Private Ltd. We can exercise control over the Board of Directors of this entity, and therefore we have consolidated the financial results, position and cash flows of this entity into our group financial report.

(e) Controlled entities not individually audited by Ernst & Young

Companies not audited by Ernst & Young, our Australian statutory auditor.

(f) New incorporations and business combinations

A new controlled entity, Telstra Robin Holdings Limited, was established on 2 February 2010. On 23 February 2010, it acquired Dotad Media Holdings Limited along with its controlled entities for a total consideration of $105m.

During the year, we acquired 49.0% of Telstra Telecommunications Private Ltd for minimal consideration.

Refer to note 20 for further details on our acquisitions.

(g) Sales and disposals

On 9 September 2009, our controlled entity Sensis Pty Ltd sold its 100% shareholding in Universal Publishers Pty Ltd.

Refer to note 20 for further details on our disposals.

(h) Non-current assets held for sale

The carrying value of the assets and liabilities of SouFun Holdings Limited and its controlled entities have been classified as held for sale at 30 June 2010. Refer to note 12 for further details.

(i) Name changes

The following entities changed their names subsequent to 30 June 2010:

- Auto Trader Australia Pty Ltd changed its name to ACN 092 426 778 Pty Ltd; and
- WA Auto Trader Pty Ltd changed its name to ACN 067 264 733 Pty Ltd.

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities

	Telstra Group As at 30 June	
	2010 $m	2009 $m
Investments in jointly controlled entities		
Investments in jointly controlled entities	**2**	5
Allowance for impairment in value	**-**	(2)
Carrying amount of investments in jointly controlled entities	**2**	3
Investments in associated entities		
Investments in associated entities	**39**	38
Allowance for impairment in value	**(24)**	(25)
Carrying amount of investments in associated entities	**15**	13
	17	16

Our investments in jointly controlled and associated entities are listed below:

Name of Entity	Principal activities	Ownership interest As at 30 June		Telstra Group's carrying amount of investment (*) As at 30 June	
		2010 %	2009 %	**2010 $m**	2009 $m
Jointly controlled entities					
FOXTEL Partnership (h)	Pay television	**50.0**	50.0	**-**	-
FOXTEL Television Partnership (h)	Pay television	**50.0**	50.0	**-**	-
Customer Services Pty Limited (h)	Customer service	**50.0**	50.0	**-**	-
FOXTEL Management Pty Ltd (h)	Management services	**50.0**	50.0	**-**	-
FOXTEL Cable Television Pty Ltd (a)(h)	Pay television	**80.0**	80.0	**-**	-
Reach Ltd (incorporated in Bermuda) (e)(h)	International connectivity services	**50.0**	50.0	**-**	-
TNAS Limited (incorporated in New Zealand) (e)(h)	Toll free number portability in New Zealand	**33.3**	33.3	**-**	-
3GIS Pty Ltd (e)	Management services	**50.0**	50.0	**-**	-
3GIS Partnership (e)	3G network services	**50.0**	50.0	**-**	-
Bridge Mobile Pte Ltd (incorporated in Singapore) (e)	Regional roaming provider	**10.0**	10.0	**2**	2
Mnet Group Limited (formerly m.Net Corporation Limited) (b)	Mobile phone content provider	**(b)**	25.2	**-**	1
				2	3
Associated entities					
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (e)(h)	Network cable provider	**46.9**	46.9	**-**	-
Telstra Super Pty Ltd (a)(h)	Superannuation trustee	**100.0**	100.0	**-**	-
Keycorp Limited (c)(d)(f)	Electronic transactions solutions	**48.2**	48.2	**15**	13
Telstra Foundation Ltd (a)	Charitable trustee organisation	**100.0**	100.0	**-**	-
Beijing Huaxin Target Information Co Ltd (incorporated in China) (b)(e)	Wireless music services	**30.0**	-	**-**	-
				15	13

Unless otherwise noted, all investments have a balance date of 30 June, are incorporated in Australia and our voting power is the same as our ownership interest.

(*) The Telstra Group carrying amounts are calculated using the equity method of accounting.

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(a) Jointly controlled and associated entities in which we own more than 50% equity

- We own 80% of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a jointly controlled entity as the other equity shareholders have participating rights that prevent us from dominating the decision making of the Board of Directors. Effective voting power is restricted to 50% and we have joint control.

- We own 100% of the equity of Telstra Super Pty Ltd, the trustee for the Telstra Superannuation Scheme (Telstra Super). We do not consolidate Telstra Super Pty Ltd as we do not control the Board of Directors. We have equal representation with employee representatives on the Board. Our voting power is limited to 44%, which is equivalent to our representation on the Board. The entity is therefore classified as an associated entity as we have significant influence over it.

- We own 100% of the equity of Telstra Foundation Ltd (TFL). TFL is limited by guarantee (guaranteed to $100) with Telstra Corporation Limited being the sole member. We did not contribute any equity to TFL on incorporation. TFL is the trustee of the Telstra Community Development Fund and manager of the Telstra Kids Fund. We do not consolidate TFL as we do not control the Board. Our voting power on the Board is limited to 38%, which is equivalent to our representation on the Board.

(b) Other changes in jointly controlled and associated entities

During the period, m.Net Corporation Limited merged with Mercury Mobility Ltd and was renamed Mnet Group Limited. As a result of the merger, our investment in Mnet Group Limited is 12.7% at 30 June 2010 and this investment is no longer classified as a jointly controlled entity.

During the period, Beijing Huaxin Target Information Co Ltd was acquired as part of the acquisition of Dotad Media Holdings Limited (Dotad).

(c) Fair value of investments in listed jointly controlled and associated entities

- The fair value of our investment in Keycorp Limited at 30 June 2010 is $15 million (2009: $13 million).

(d) Dividends received

- A $1 million dividend was received from Keycorp Limited during the year (2009: $2 million).

(e) Jointly controlled and associated entities with different balance dates

The following jointly controlled and associated entities have different balance dates to our balance date of 30 June for fiscal 2010:

- Reach Ltd - 31 December;
- TNAS Limited - 31 March;
- 3GIS Pty Ltd - 31 December;
- 3GIS Partnership - 31 December;
- Bridge Mobile Pte Ltd - 31 March;
- Australia-Japan Cable Holdings Limited - 31 December; and
- Beijing Huaxin Target Information Co Ltd - 31 December.

Financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in jointly controlled and associated entities with different balance dates is the same at that balance date as 30 June unless otherwise noted.

(f) Share of net profits/(losses)

	Telstra Group	
	Year ended 30 June	
	2010	2009
	$m	$m
Net profit/(loss) from jointly controlled and associated entities has been contributed by the following entities:		
Associated entities		
- Keycorp Limited	**2**	4
- LinkMe Pty Ltd (sold in February 2009)	**-**	(1)
	2	3

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(g) Other disclosures for jointly controlled and associated entities

The movements in the consolidated equity accounted amount of our jointly controlled and associated entities are summarised as follows:

	Jointly controlled entities Telstra Group		Associated entities Telstra Group	
	Year ended / As at 30 June		Year ended / As at 30 June	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Carrying amount of investments at beginning of year	**3**	2	**13**	12
Additional investments made during the year	**-**	-	**-**	1
	3	2	**13**	13
Share of net profits for the year	**-**	-	**2**	3
Share of foreign currency translation reserve and movements due to exchange rate translations	**(1)**	1	**-**	-
Dividends received	**-**	-	**(1)**	(2)
Sale, transfers and reductions of investments during the year	**-**	-	**-**	(3)
Carrying amount of investments before reduction to recoverable amount	**2**	3	**14**	11
Impairment losses reversed during the year	**-**	-	**1**	2
Carrying amount of investments at end of year	**2**	3	**15**	13
Our share of contingent liabilities of jointly controlled and associated entities	**11**	15	**-**	-
Our share of capital commitments contracted for by our jointly controlled and associated entities	**8**	23	**-**	1
Our share of other expenditure commitments contracted for by our jointly controlled and associated entities (other than the supply of inventories) (i) (ii)	**2,081**	2,043	**-**	1

(i) Our jointly controlled entity, FOXTEL, has other commitments amounting to approximately $3,835 million (2009: $3,812 million). The majority of our 50% share of these commitments relate to minimum subscriber guarantees (MSG) for pay television programming agreements. These agreements are for periods of between 1 and 25 years and are based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments fluctuate in accordance with price escalation, as well as foreign currency movements. In addition to our MSG, FOXTEL has other commitments including obligations for satellite transponder costs and digital set top box units.

(ii) Our jointly controlled entity, 3GIS Partnership, has other commitments amounting to $295 million (2009: $232 million). The majority of our 50% share of these commitments relate to property leases. These leases are for periods of between 5 and 30 years and are based on future property payments under agreements entered into between the 3GIS Partnership and various other parties.

Under the Telstra Network Access Contract dated 6 December 2004, we are charged a 3G Network Access Charge that includes our 50% share of the partnership's operational expenditure. As we are obligated through this agreement to fund our share of the partnership's operating expenditure we are also responsible for our share of its expenditure commitments.

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(g) Other disclosures for jointly controlled and associated entities (continued)

Summarised presentation of all of our jointly controlled and associated entities' assets, liabilities, revenue and expense items (including jointly controlled and associated entities where equity accounting has been suspended):

	Jointly controlled entities Telstra Group		Associated entities Telstra Group	
	Year ended / As at 30 June		Year ended / As at 30 June	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Current assets	**393**	500	**79**	59
Non current assets	**1,204**	1,103	**247**	282
Total assets	**1,597**	1,603	**326**	341
Current liabilities	**675**	613	**74**	197
Non current liabilities	**1,488**	1,532	**439**	355
Total liabilities	**2,163**	2,145	**513**	552
Net liabilities	**(566)**	(542)	**(187)**	(211)
Total income	**4,698**	4,484	**89**	80
Total expenses	**4,550**	4,354	**72**	82
Profit/(loss) before income tax expense	**148**	130	**17**	(2)
Income tax (benefit)/expense	**-**	(2)	**-**	1
Profit/(loss) for the year	**148**	132	**17**	(3)

Summarised presentation of our share of all our jointly controlled and associated entities' revenue and expense items (including jointly controlled and associated entities where equity accounting has been suspended):

Total income	**2,829**	2,598	**42**	38
Total expenses	**2,756**	2,544	**34**	39
Profit/(loss) before income tax expense	**73**	54	**8**	(1)
Income tax (benefit)/expense	**-**	(1)	**-**	1
Profit/(loss) for the year	**73**	55	**8**	(2)

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(h) Suspension of equity accounting

Our unrecognised share of (profits)/losses for the period and cumulatively, for our entities where equity accounting has ceased and the investment is recorded at zero due to losses made by these entities and/or reductions in the equity accounted carrying amount, is shown below:

	Telstra Group			
	Year ended 30 June			
	Period 2010 $m	**Cumulative 2010 $m**	Period 2009 $m	Cumulative 2009 $m
Jointly controlled entities				
FOXTEL (*)	**(12)**	**152**	(68)	164
Reach Ltd	**6**	**596**	-	590
Associated entities				
Australia-Japan Cable Holdings Limited	**(6)**	**156**	5	162
	(12)	**904**	(63)	916

Equity accounting has also been suspended for the following jointly controlled and associated entities:

- TNAS Limited;
- Telstra Super Pty Ltd.

There are no significant unrecognised profits/losses in these entities.

(*) FOXTEL includes FOXTEL Partnership, FOXTEL Television Partnership, Customer Services Pty Limited, FOXTEL Management Pty Limited and FOXTEL Cable Television Pty Ltd.

A $60 million distribution was received from FOXTEL during the year (2009: $100 million). This has been recorded as revenue in the income statement and has decreased our cumulative share of unrecognised losses in FOXTEL to $152 million after taking into account our share of FOXTEL's profit for the year of $80 million and other adjustments of $8 million.

Notes to the Financial Statements (continued)

27. Employee share plans

The Company has a number of employee share plans that are available for directors, executives and employees. These include those conducted through the:

- Telstra Growthshare Trust; and
- Telstra Employee Share Ownership Plan Trusts (TESOP99 and TESOP97).

The nature of each plan, details of plan holdings, movements in holdings, and other relevant information is disclosed below:

Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in fiscal 2000. Under the trust, Telstra operates a number of different equity plans, including:

- short term incentive plans;
- long term incentive plans; and
- directshare and ownshare plans.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100% owned by Telstra. Funding is provided to the Telstra Growthshare Trust to purchase Telstra shares on market to underpin the equity instruments issued.

In fiscal 2010, we recorded an expense of $5 million for our share based payment plans operated by the Telstra Growthshare Trust (2009: $23 million). As at 30 June 2010, we had an estimated total expense yet to be recognised of $31 million (2009: $38 million), which is expected to be recognised over a weighted average of 1.4 years (2009: 1.5 years).

(a) Short term incentive (STI) plans

The purpose of the STI is to link key executives' rewards to individual key performance indicators and to Telstra's financial performance. The STI is delivered in cash and incentive shares and the executive is paid an annual STI only when the threshold targets are met or exceeded.

(i) Description of equity instruments

From fiscal 2009, all STI payments have been provided to Senior Executives as cash due to the changes of tax law governing employee share schemes.

Incentive shares (fiscal 2008 and 2007):

In relation to fiscal 2008 and 2007 allocations of incentive shares, the incentive shares vested immediately, and the executive is able to use the incentive shares to vote and receive dividends from the vesting date. However, the executive is restricted from dealing with the vested incentive shares until after they are released from the restriction period.

Vested incentive shares are released from trust on the earliest of:

- five years from the date of effective allocation;
- when the minimum level of executive shareholding has been achieved and the Board approves removal of the five year restriction period;
- upon the ceasing of employment by the executive; or
- a date the Board determines (in response to an actual or likely change of control). Once the vested incentive shares are exercised, Telstra shares will be transferred to the executive.

(ii) Summary of movements and other information

Allocations of Telstra's shares have been made in the form of incentive and deferred incentive shares under our STI plans and are detailed in the following table:

	Incentive shares (^)	
	Number	Weighted average fair value (*)
Outstanding as at 30 June 2008	2,105,490	$4.50
Granted	1,437,525	$4.31
Exercised	(672,511)	$4.77
Outstanding as at 30 June 2009	2,870,504	$4.34
Granted	**12,602**	**$3.23**
Forfeited	**(32,945)**	**$4.77**
Exercised	**(1,677,853)**	**$4.33**
Outstanding as at 30 June 2010 (#)	**1,172,308**	**$4.36**
Exercisable as at 30 June 2010	**32,847**	**$4.77**

(^) Incentive shares includes both incentive shares and deferred incentive shares. The incentive shares "exercisable" includes incentive shares held by those executives who have been made redundant, and the incentive shares consequently released from the restriction period. The weighted average share price for incentive shares exercised during the financial year was $3.55 (2009: $4.35).

(*) The fair value of incentive shares granted is based on the market value of Telstra shares on allocation date.

(#) The number outstanding includes incentives shares that are subject to a restriction period. These amount to 1,139,461 as at 30 June 2010.

(b) Long term incentive (LTI) plans

The purpose of the long term incentive (LTI) plans is to align key executives' rewards with shareholders' interests, and reward performance improvement whilst supporting business plans and corporate strategies. The Telstra Growthshare Trust Board administers the plans and the Remuneration Committee and the Telstra Board determine who is invited to participate in these plans.

Performance of the LTI plans is measured with respect to the relevant performance period and subject to subsequent verification, ratification and sign off by the Remuneration Committee and approval by the Board.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(i) Outstanding equity based instruments

Allocations have been made over a number of years in the form of performance rights, restricted shares and options under our LTI plan. These represent a right to acquire a share in Telstra. Further information regarding each type of LTI plan that was outstanding during the year are detailed in the following table:

	Effective allocation date	Performance period from	Performance period to	Exercise price	Expiry date
Growthshare 2002 - Sept 2001 allocation					
TSR options	6 Sept 2001	6 Sept 2004	6 Sept 2006	$4.90	6 Sept 2011
Growthshare 2005 - Aug 2004 allocation					
TSR performance rights	20 Aug 2004	20 Aug 2007	20 Aug 2009	$1 per parcel exercised	20 Nov 2009
Growthshare 2006 - Feb 2006 allocation					
TSR, OEG, RG, NT & ITT performance rights	24 Feb 2006	1 Jul 2005	30 Jun 2010	$1 per parcel exercised	19 Aug 2012
ROI performance rights	24 Feb 2006	1 Jul 2005	30 Jun 2008	$1 per parcel exercised	19 Aug 2012
Growthshare 2007					
TSR, RG, NGN & ITT & SEBITDA options	31 Jan 2007	1 Jul 2006	30 Jun 2010	$3.67	30 Jun 2012
ROI options	31 Jan 2007	1 Jul 2008	30 Jun 2010	$3.67	30 Jun 2012
Growthshare 2008					
ESOP options	10 Dec 2007	n/a	n/a	$4.34	17 Aug 2012
TSR options	8 Nov 2007	1 Jul 2007	30 Jun 2011	$4.34	30 Jun 2013
ROI options	8 Nov 2007	1 Jul 2008	30 Jun 2011	$4.34	30 Jun 2013
Growthshare 2009					
ESOP options	1 Jul 2008	n/a	n/a	$4.36	21 Aug 2013
US ESOP options	21 Aug 2008	n/a	n/a	$4.25	21 Aug 2013
RTSR options	1 Jul 2008	1 Jul 2008	30 Jun 2012	$4.36	30 Jun 2014
ROI restricted shares	1 Jul 2008	1 Jul 2009	30 Jun 2012	nil	21 Aug 2014
Growthshare 2010					
ESRP performance rights	**21 Aug 2009**	**n/a**	**n/a**	**nil**	**21 Aug 2012**
RTSR restricted shares	**21 Aug 2009**	**1 Jul 2009**	**30 Jun 2012**	**nil**	**21 Aug 2013**
FCF ROI restricted shares	**21 Aug 2009**	**1 Jul 2009**	**30 Jun 2012**	**nil**	**21 Aug 2013**

Refer to section (b)(ii) for a description of the above equity instruments.

In relation to these executive LTI plans, the Board may, in its discretion, reset the hurdles governing the fiscal 2010, fiscal 2009, fiscal 2008 and fiscal 2007 equity instruments to make them consistent with the changed circumstances resulting from the occurrence of factors including:

- a material change in the strategic business plan;
- a regulatory change occurs; or
- a significant out-of-plan business development occurs (this could include a major acquisition outside the current business plan resulting in a significant change to the business of Telstra or the Telstra group, that means that (in the reasonable opinion of the Board) the targets for that class of equity instruments are no longer appropriate).

In fiscal 2010 the Board did not reset the hurdles governing the equity instruments issued in fiscal 2010, fiscal 2009, fiscal 2008 or fiscal 2007.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(ii) Description of equity instruments

Restricted shares

In respect of restricted shares, an executive has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the restricted shares vest. If the performance hurdle is satisfied during the applicable performance period, a specified number of restricted shares as determined in accordance with the trust deed and terms of issue, will become restricted trust shares.

In relation to restricted shares issued in fiscal 2010 and 2009, once the restricted shares vest they become restricted trust shares. Although the trustee holds the restricted trust shares in trust, the executive will retain beneficial interest (dividends, voting rights, bonuses and rights issues) in the shares until they are transferred to them or sold on their behalf at expiration of the restriction period (unless forfeited).

A description of each restricted share issued and outstanding in fiscal 2010 is set out below:

- return on investment (ROI) restricted shares - based on an increase in the earnings before interest and tax for Telstra divided by the average investment;
- relative total shareholder return (RTSR) restricted shares - based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in the Peer Group; and
- free cashflow return on investment (FCF ROI) restricted shares - based on Telstra's annual free cashflow (less finance costs) over the performance period divided by the average investment over the performance period.

Options

An employee or executive is not entitled to Telstra shares unless the options initially vest (subject to the achievement of the relevant performance hurdles) and then are exercised. This means that the employee or executive cannot use options to vote or receive dividends until they have vested and been exercised. If the performance hurdles are satisfied in the applicable performance period, options must be exercised at any time before the expiry date, otherwise they will lapse. Once the options are exercised and the exercise price paid, Telstra shares will be transferred to the eligible employee or executive.

A description of each type of option that existed in fiscal 2010 is set out below:

Employee options:
- ESOP options - based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions); and
- US ESOP options - based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions).

Executive LTI options:
- relative total shareholder return options (RTSR options) - based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in the Peer Group;
- total shareholder return options (TSR options) - based on growth in Telstra's total shareholder return;
- return on investment options (ROI options) - based on an increase in the earnings before interest and tax for Telstra relative to the average investment;
- revenue growth options (RG options) - based on increases in Telstra's revenue;
- next generation network options (NGN options) - based on completion of certain elements associated with Telstra's next generation network;
- information technology transformation options (ITT options) - based on completion of certain elements in Telstra's transformation program and the rationalisation of the number of business support systems (BSS) and operational support systems (OSS) used by companies in the Telstra Group; and
- Stretch EBITDA options (SEBITDA options) - based on increases in Telstra's earnings before interest, tax, depreciation and amortisation (EBITDA).

Performance rights

In respect of performance rights, an executive or an employee has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the performance rights vest. If the performance hurdle is satisfied during the applicable performance period, a specified number of performance rights as determined in accordance with the trust deed and terms of issue, will become vested performance rights.

The exercise price for the vested performance rights allocated to executives prior to fiscal 2010 is $1 in total for all of the performance rights exercised on a particular day.

For employee share rights plan (ESRP) performance rights allocated in fiscal 2010, there is no exercise price payable. Once the vested performance rights are exercised, Telstra shares will be transferred to the executive or the employee. Until this time, the executive or the employee cannot use the performance rights (or vested performance rights) to vote or receive dividends.

A description of each type of performance right that existed in fiscal 2010 is set out below:

Employee performance rights:

- Employee share rights plan (ESRP) performance rights - are based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions).

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(ii) Description of equity instruments (continued)

Executive LTI performance rights:

- return on investment (ROI) performance rights - based on an increase in the earnings before interest and tax for Telstra relative to the average investment;
- total shareholder return (TSR) performance rights - based on growth in Telstra's total shareholder return;
- operating expense growth (OEG) performance rights - based on a reduction in Telstra's operating expenses;
- revenue growth (RG) performance rights - based on increases in Telstra's revenue;
- network transformation (NT) performance rights - based on completion of certain elements in Telstra's network transformation program; and
- information technology transformation (ITT) performance rights - based on the rationalisation of the number of business support systems and operational support systems used by Telstra.

(iii) Performance hurdles

Restricted Shares

Details of the relevant performance hurdles in relation to restricted shares, are set out below:

Relative Total Shareholder Return (RTSR) restricted shares (fiscal 2010)

For RTSR restricted shares, the single performance period is the three year period ending on 30 June 2012.

If Telstra achieves a result placing it in at least the 50th percentile for the performance period, then:

- the number of RTSR restricted shares that vest for that performance period is scaled proportionately from the 50th percentile (at which 25% of the allocation vests) to the 75th percentile (at which 100% of the allocation vests); and
- any restricted shares that do not vest will lapse.

If Telstra does not reach the 50th percentile, all of these RTSR restricted shares will lapse.

Any RTSR restricted shares that vest become restricted trust shares and are held by the Trustee until the restriction period ends (4 years after the effective allocation date of the restricted shares).

Free Cashflow Return on Investment (FCF ROI) restricted shares (fiscal 2010)

For FCF ROI restricted shares, the single performance period is the three year period ending on 30 June 2012.

The number of FCF ROI restricted shares that will vest is calculated as follows:

- if the threshold target is achieved, then 50% of the allocation of FCF ROI restricted shares will vest;
- if the result achieved is between the threshold and stretch targets, then the number of FCF ROI restricted shares that will vest is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved or exceeded, then 100% of the FCF ROI restricted shares will vest.

If the threshold target is not achieved, all of these FCF ROI restricted shares will lapse.

Any FCF ROI restricted shares that vest become restricted trust shares and are held by the Trustee until the end of the restriction period.

Return on Investment (ROI) restricted shares (fiscal 2009)

For ROI restricted shares, there are three performance periods as follows:

- First performance period - 1 July 2009 to 30 June 2010;
- Second performance period - 1 July 2010 to 30 June 2011; and
- Third performance period - 1 July 2011 to 30 June 2012.

For each of the performance periods, the number of restricted shares that will vest is calculated as follows:

- if the threshold target is achieved, then 50% of the allocation of restricted shares for that period will vest;
- if the result achieved is between the threshold and stretch target, then the number of restricted shares for that period that will vest is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved, then 100% of the restricted shares for that period will vest.

Any restricted shares that vest become restricted trust shares. Any restricted shares which do not vest in their respective performance periods will lapse.

Options

Details of the relevant performance hurdles in relation to options are set out below:

ESOP options and US ESOP options (fiscal 2009 (ESOP and US ESOP) and 2008 (ESOP only))

As part of the employee share option plan, certain eligible employees were provided options that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the effective allocation date of the options (and in certain other circumstances), the options will vest. These options are not subject to any additional performance hurdles.

Relative Total Shareholder Return (RTSR) options (fiscal 2009)

For RTSR options, the applicable performance hurdle is based on comparing the TSR growth of Telstra against other companies in the peer group. Telstra is then given a score to determine its rank in comparison to the peer group. The RTSR options vest only if Telstra achieves a rank of at least the 50th percentile.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iii) Performance hurdles (continued)

The Board has the discretion to amend the members in the peer group, as well as make necessary adjustments to the calculation of the TSR amount, TSR growth or rank.

For RTSR options, there are three performance periods as follows:
- First performance period - 1 July 2008 to 30 June 2010;
- Second performance period - 1 July 2008 to 30 June 2011; and
- Third performance period - 1 July 2008 to 30 June 2012.

The result for each performance period is separately measured. If Telstra achieves a rank greater than or equal to the 50th percentile for the performance period, then:

- the number of TSR options that become exercisable for that performance period is scaled proportionately from the 50th percentile (at which 25% of the allocation becomes exercisable) to the 75th percentile (at which 100% of the allocation becomes exercisable); and
- 25% of any unvested options for that performance period will lapse.

If Telstra achieves a rank of less than the 50th percentile for the performance period, then none of the options allocated for that performance period will vest and 25% of the options will lapse.

In addition, for the third performance period, if Telstra's rank meets or exceeds:

- both the 50th percentile and the rank achieved in the first performance period, the remaining unvested options from the first performance period will vest; and/or
- both the 50th percentile and the rank achieved in the second performance period, the remaining unvested options from the second performance period will vest.

The number of additional unvested options which may vest is also determined by using a linear scale.

If Telstra achieves a rank of less than the 50th percentile for the third performance period, then no options will vest for the third performance period. Furthermore, any remaining unvested options which do not vest or lapse following the third performance period will lapse following the end of the third performance period.

Total Shareholder Return (TSR) options (fiscal 2008)

For TSR options allocated to each performance period, the applicable performance hurdle is based on the market value of Telstra shares and the value of any other benefits paid or made available to Telstra shareholders, including dividends. This performance hurdle is set by the Board.

The TSR hurdle has been measured over the following three performance periods:

	Performance Period		
	1st	2nd	3rd
Growthshare 2008 (TSR)	1 July 2007 to 30 June 2009	1 July 2007 to 30 June 2010	1 July 2007 to 30 June 2011

The result for each performance period is separately measured. These TSR options vest if the growth in Telstra's total shareholder return meets or exceeds certain targets over the relevant performance period. The performance period result is calculated as follows:

- if the threshold target is achieved, then 50% of the allocation of options for that period will vest;
- if the result achieved is between the threshold and stretch targets, then the number of vested options is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved, then 100% of the options will vest.

For the third performance period the number of options that will vest is based on the performance period result. Further, if the threshold target in the third performance period is met, then:

- if the stretch target is achieved in the third performance period, 100% of options that did not vest in the first and second performance periods will also vest (provided they have not lapsed); or
- if the threshold target is not achieved in the first and/or second performance period respectively, and the result achieved in the third performance period is less than the stretch target (but more than the threshold target), 50% of the options that did not vest in the first and/or second performance period respectively will also vest (provided they have not lapsed).

Return on Investment (ROI) options (fiscal 2008)

The ROI hurdle has been measured over the following three performance periods:

	Performance Period		
	1st	2nd	3rd
Growthshare 2008 (ROI)	1 July 2008 to 30 June 2009	1 July 2009 to 30 June 2010	1 July 2010 to 30 June 2011

For each of the performance periods, the number of options that will vest is calculated as follows:

- if the threshold target is achieved in the applicable performance period, then 50% of the allocation of options will vest;
- if the result achieved is between the threshold and stretch targets, then the number of vested options is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved, then 100% of the options will vest.

The maximum number of options that can vest in a performance period is limited to the initial number allocated, less any options that may have lapsed.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iii) Performance hurdles (continued)

Total Shareholder Return (TSR), Revenue Growth (RG), Next Generation Network (NGN), Information Technology Transfomation (ITT), Stretch EBITDA (SEBITDA) options and Gateway Hurdle (fiscal 2007)

For allocations of TSR, ROI, RG, NGN, ITT and SEBITDA options, these options were tested at set intervals over various performance periods from 1 July 2006 to 30 June 2010. These options could only vest where the threshold target was achieved, increasing on a straight line basis to 100% of options vesting where the stretch target was achieved.

For the TSR hurdle, there was the ability for those TSR options that do not vest initially to subsequently vest in the last performance period if the threshold or stretch target was met.

For allocations of SEBITDA, the applicable performance hurdles were based on stretch EBITDA targets being reached or exceeded. These stretch targets were measured each year from 30 June 2007 to 30 June 2010 and if the stretch target was achieved two years in a row, then 20% of the allocated options would vest. If the stretch target was achieved three years in a row, then a further 30% of the allocated options would vest and if the stretch target was achieved four years in a row, then the final 50% of the allocated options would vest.

In addition, for the SEBITDA hurdle there was the ability for 75% of the options that did not vest initially to subsequently vest if the stretch target for the four year period to 30 June 2010 was met.

In addition to the performance hurdles described above, a Gateway TSR hurdle was applicable for the fiscal 2007 allocation of options. For all eligible executives, if the hurdle was not met at 30 June 2010, none of the options granted under the plan would be exercisable, irrespective of whether any options have previously vested.

The Growthshare 2007 plan reached its final testing point as at 30 June 2010 and failed to satisfy the Gateway TSR hurdle. As such, 100% of the TSR, RG, NGN, ITT, ROI and SEBITDA options allocated to each performance period under the Growthshare 2007 plan lapsed.

Performance rights

Details of the relevant performance hurdles in relation to performance rights are set out below:

Employee Share Rights Plan (ESRP) performance rights (fiscal 2010)

As part of the employee share rights plan, certain eligible employees were provided performance rights that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the effective allocation date of the performance rights (and in certain other circumstances), the performance rights will vest. These performance rights are not subject to any performance hurdles.

Total Shareholder Return (TSR), Return on Investment (ROI), Operating Expense Growth (OEG), Revenue Growth (RG), Network Transformation (NT) and Information Technology Transformation (ITT) performance rights (fiscal 2006)

For allocations of TSR, ROI, OEG, RG, NT and ITT performance rights, these performance rights were tested at set intervals over various performance periods and could only vest where the threshold target was achieved, increasing on a straight line basis to 100% of performance rights vesting where the stretch target was achieved.

For the ROI, OEG, RG, NT and ITT hurdles, there was the ability for 75% of the performance rights that did not vest initially (due to not meeting the threshold target) to subsequently vest in the last performance period. For the ROI performance rights, these would be tested against the TSR performance hurdle in the last performance period.

If the threshold target for a class was not met in the last performance period, then all TSR, OEG, RG, NT, ITT performance rights would lapse (including the ROI performance rights tested against the TSR hurdle).

The Growthshare 2006 plan reached its final testing point as at 30 June 2010. This plan satisfied the RG performance hurdles and failed to satisfy the TSR (including ROI performance rights that did not vest initially), OEG, NT and ITT performance hurdles for the final performance period. As such, 70% of the performance rights allocated in the final performance period to the RG measures vested and 100% of the performance rights allocated to the TSR, OEG, NT and ITT measures lapsed (including the ROI performance rights tested against the TSR hurdle).

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iv) Summary of movements and other information

	Number of equity instruments						
	Outstanding at 30 June 2009	Granted	Forfeited (*)	Exercised	Expired (^)	Outstanding at 30 June 2010	Exercisable at 30 June 2010
Growthshare 2002 - Sept 2001 allocation							
TSR options	10,278,000	-	(1,339,000)	-	-	8,939,000	8,939,000
Growthshare 2005 - Aug 2004 allocation							
TSR performance rights	94,844	-	(39,963)	(54,881)	-	-	-
Growthshare 2006 - Feb 2006 allocation							
TSR performance rights	1,116,343	-	(99,797)	-	(1,016,546)	-	-
OEG performance rights	827,354	-	(72,063)	-	(755,291)	-	-
RG performance rights (#)	617,632	-	(41,131)	(88,080)	(128,901)	359,520	359,520
NT performance rights (#)	377,501	-	(20,327)	(88,080)	(210,343)	58,751	58,751
ITT performance rights	587,220	-	(51,257)	-	(535,963)	-	-
ROI performance rights	91,527	-	-	-	(91,527)	-	-
Growthshare 2007							
TSR options	18,922,845	-	(2,614,093)	-	(16,308,752)	-	-
RG options	17,543,844	-	(3,654,413)	-	(13,889,431)	-	-
NGN options	17,802,575	-	(4,295,623)	-	(13,506,952)	-	-
ITT options	11,982,397	-	(1,738,885)	-	(10,243,512)	-	-
ROI options	14,709,380	-	(1,486,033)	-	(13,223,347)	-	-
SEBITDA options	31,304,615	-	(4,574,649)	-	(26,729,966)	-	-
Growthshare 2008							
ESOP options	13,938,188	-	(1,611,791)	(319)	-	12,326,078	-
TSR options	15,993,398	-	(1,879,727)	-	-	14,113,671	-
ROI options	15,993,395	-	(1,401,520)	-	(4,234,115)	10,357,760	4,712,319
Growthshare 2009							
ESOP options	15,677,479	-	(1,626,058)	(319)	-	14,051,102	-
US ESOP options	69,500	-	-	-	-	69,500	-
RTSR options	18,355,596	-	(2,219,662)	-	(4,840,781)	11,295,153	-
ROI restricted shares	5,818,222	-	(703,580)	-	(1,534,394)	3,580,248	-
Growthshare 2010							
ESRP performance rights	-	2,047,583	(102,499)	(222)	-	1,944,862	-
RTSR restricted shares	-	7,413,228	(9,231)	-	-	7,403,997	-
FCF ROI restricted shares	-	7,413,228	(9,231)	-	-	7,403,997	-

(*) Forfeited refers to either cessation of employment or the instrument lapsing unexercised.

(^) Expired refers to the performance hurdle not being met.

(#) The performance rights outstanding and exercisable at 30 June 2010 include those performance rights that satisfied the RG and NT performance hurdles for the initial performance period.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iv) Summary of movements and other information (continued)

	Number of equity instruments						
	Outstanding at 30 June 2008	Granted	Forfeited (*)	Exercised	Expired (^)	Outstanding at 30 June 2009	Exercisable at 30 June 2009
Growthshare 2002 - Sept 2001 allocation							
TSR options	11,836,000	-	(1,558,000)	-	-	10,278,000	10,278,000
Growthshare 2003 - Mar 2003 allocation							
TSR performance rights	18,094	-	-	(18,094)	-	-	-
Growthshare 2004 - Sept 2003 allocation							
Deferred shares	87,925	-	-	(76,025)	(11,900)	-	-
TSR performance rights	1,730,823	-	-	(1,653,189)	(77,634)	-	-
Growthshare 2004 - Feb 2004 allocation							
TSR performance rights	8,298	-	-	(8,298)	-	-	-
Growthshare 2005 - Aug 2004 allocation							
TSR performance rights	997,740	-	-	(902,896)	-	94,844	94,844
Growthshare 2006 - Feb 2006 allocation (**)							
TSR performance rights	508,934	632,062	(24,653)	-	-	1,116,343	-
OEG performance rights	1,019,799	-	(64,666)	-	(127,779)	827,354	-
RG performance rights	1,019,797	-	(38,170)	(363,995)	-	617,632	146,831
NT performance rights	760,594	-	(19,098)	(363,995)	-	377,501	146,831
ITT performance rights	760,592	-	(45,593)	-	(127,779)	587,220	-
ROI performance rights	1,033,489	(632,062)	(51,472)	-	(258,428)	91,527	-
Growthshare 2007 (#)							
TSR options	21,486,080	1,034,483	(1,270,132)	-	(2,327,586)	18,922,845	-
RG options	18,248,077	1,293,104	(704,231)	-	(1,293,106)	17,543,844	-
NGN options	19,024,066	1,034,482	(704,250)	-	(1,551,723)	17,802,575	-
ITT options	19,024,037	517,241	(595,601)	-	(6,963,280)	11,982,397	-
ROI options	14,368,875	1,293,104	(952,599)	-	-	14,709,380	-
SEBITDA options	33,527,339	-	(2,222,724)	-	-	31,304,615	-
Growthshare 2008							
ESOP options	15,471,154	-	(1,531,507)	(1,459)	-	13,938,188	-
TSR options	17,489,847	-	(1,496,449)	-	-	15,993,398	-
ROI options	17,489,847	-	(1,496,452)	-	-	15,993,395	-
Growthshare 2009							
ESOP options	-	16,401,963	(724,484)	-	-	15,677,479	-
US ESOP options	-	69,500	-	-	-	69,500	-
RTSR options	-	18,355,596	-	-	-	18,355,596	-
ROI restricted shares	-	5,818,222	-	-	-	5,818,222	-

(*) Forfeited refers to either cessation of employment or the instrument lapsing unexercised.

(^) Expired refers to the performance hurdle not being met.

(**) During fiscal 2009, 632,062 ROI performance rights were added to the TSR performance rights category in accordance with the terms of the plan.

(#) The options granted in fiscal 2007 include those granted to the former CEO. There are three performance periods and options have been allocated to each period. The options granted in fiscal 2009 are part of the tranche 3 allocation and appear as additions to the Growthshare 2007 plan.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(b) Long term incentive (LTI) plans (continued)

(iv) Summary of movements and other information (continued)

	Options (*)		Deferred shares		Performance rights (^)		Restricted shares (#)	
	Number	Weighted average fair value (**)	Number	Weighted average fair value (**)	Number	Weighted average fair value (**)	Number	Weighted average fair value (**)
Outstanding as at 30 June 2008	187,965,322	$0.74	87,925	$4.29	7,858,160	$2.95	-	-
Granted	39,999,473	$0.20	-	-	-	-	5,818,222	$2.83
Forfeited	(13,256,429)	$0.73	-	-	(243,652)	$2.97	-	-
Exercised (^^)	(1,459)	$0.43	(76,025)	$4.29	(3,310,467)	$2.97	-	-
Expired	(12,135,695)	$0.85	(11,900)	$4.29	(591,620)	$3.25	-	-
Outstanding as at 30 June 2009	202,571,212	$0.63	-	-	3,712,421	$2.87	5,818,222	$2.83
Granted	**-**	**-**	**-**	**-**	**2,047,583**	**$2.88**	**14,826,456**	**$1.81**
Forfeited	**(28,441,454)**	**$0.64**	**-**	**-**	**(427,037)**	**$2.47**	**(722,042)**	**$2.80**
Exercised (##)	**(638)**	**$0.33**	**-**	**-**	**(231,263)**	**$3.05**	**-**	**-**
Expired	**(102,976,856)**	**$0.74**	**-**	**-**	**(2,738,571)**	**$2.25**	**(1,534,394)**	**$2.83**
Outstanding as at 30 June 2010	**71,152,264**	**$0.47**	**-**	**-**	**2,363,133**	**$2.91**	**18,388,242**	**$2.01**
Exercisable as at 30 June 2010	**13,651,319**	**$0.94**	**-**	**-**	**418,271**	**$3.18**	**-**	**-**

(*) Options include RTSR, TSR, RG, NGN, ITT, ROI, SEBITDA, ESOP and US ESOP options. The options “exercised” includes those participants that have been made redundant and are then consequently entitled to the Telstra shares.

(^) Performance rights include TSR, EPS, OEG, RG, NT, ITT and ROI performance rights.

(#) Restricted shares relate to ROI restricted shares.

(**) The fair value of these instruments is calculated using an option pricing model that takes into account various factors, including the exercise price and expected life of the instrument, the current price of the underlying share and its expected volatility, expected dividends, the risk-free rate for the expected life of the instrument, and the expected average volatility of Telstra’s peer group companies.

(^^) The weighted average share price for instruments exercised during fiscal 2009 was $4.05 for the fiscal 2008 ESOP allocation of options, $4.32 for the fiscal 2004 allocation of deferred shares, and $4.30 for fiscal 2003, fiscal 2004, fiscal 2005 and fiscal 2006 allocation of performance rights respectively. These share prices were based on the closing market price on the exercise dates.

(##) The weighted average share price for instruments exercised during fiscal 2010 was $3.36 for the fiscal 2008 and fiscal 2009 ESOP allocation of options, and $3.38 for fiscal 2005, fiscal 2006 and fiscal 2010 allocation of performance rights respectively. These share prices were based on the closing market price on the exercise dates.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(v) Fair value of equity instruments granted

The fair value of LTI instruments granted during the financial year was calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The following weighted average assumptions were used in determining the valuation:

	Growthshare LTI FCF ROI restricted shares	**Growthshare LTI RTSR restricted shares**	**Growthshare ESRP performance rights**	Growthshare LTI options (former CEO)	Growthshare ESOP options	US ESOP options	Growthshare LTI options	Growthshare LTI restricted shares
	Feb 2010	**Feb 2010**	**Dec 2009**	Aug 2008	Jan 2009	Aug 2008	May 2009	May 2009
Share price	**$3.01**	**$3.01**	**$3.42**	$4.39	$3.58	$4.39	$3.23	$3.23
Risk free rate	**4.75%**	**4.75%**	**4.95%**	5.65%	3.39%	5.67%	4.21%	4.21%
Dividend yield	**6.5%**	**6.5%**	**6.5%**	6.0%	6.0%	6.0%	6.0%	6.0%
Expected stock volatility	**26%**	**26%**	**26%**	21%	23%	21%	23%	23%
Expected life	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
Expected rate of achievement of TSR performance hurdles	**n/a**	**33.2%**	**n/a**	17%	n/a	n/a	52%	n/a

(*) The date the instruments become exercisable.

For the LTI FCF ROI and RTSR restricted shares, the fair value has been measured at a grant date of 22 February 2010 and has been allocated over the period for which the service is received which commenced 1 July 2009.

For the ESRP performance rights, the fair value has been measured at a grant date of 8 December 2009 and has been allocated over the period for which the service is received which commenced on 1 July 2009.

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This was based on historical daily and weekly closing share prices.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(c) Telstra Directshare and Ownshare

(i) Nature of Telstra Directshare and Ownshare

Telstra Directshare

As a result of the changes to tax laws governing employee share schemes, the Board has determined that non-executive directors are no longer required to receive a minimum of 20% of their total remuneration as restricted Telstra shares, known as Directshare from 1 July 2009. Instead, the Board has decided to implement a policy to encourage non-executive directors to hold a total value equivalent to at least 50% of their total remuneration as Telstra shares.

Participation by Telstra's non-executive directors in Directshare is therefore optional. If the non-executive director chooses not to participate, they can receive their total remuneration in cash. If the non-executive director chooses to participate, the trustee may determine to allocate shares to the participating directors on a six monthly basis, on dates determined by the trustee at its discretion. Shares are acquired by the trustee from time to time. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses and rights issues) until they are transferred at expiration of the restriction period.

The restriction period on Directshare already allocated continues until the earliest of:

- 10 years (2009: 10 years) from the date of allocation of the shares;
- the participating directors is no longer a director of, or is no longer employed by, a company in the Telstra Group; and
- the Trustee determines that an 'event' has occurred.

Telstra Ownshare

Certain eligible employees may, at their election, be provided part of their remuneration in Telstra shares. Shares are acquired by the trustee from time to time and allocated to these employees at the time their application is accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues until the earliest of:

- three years from the date of allocation (depending on the elections available to the participant at the time of allocation);
- the participant ceases employment with the Telstra Group; and
- the Board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the Ownshares will be transferred to the participant. The participant is not able to deal in the shares until this transfer has taken place.

(ii) Instruments granted during the financial year

The fair value of the instruments granted under the Directshare and Ownshare plans is determined by the remuneration foregone by the participant. On the grant of Directshares and Ownshares, the participants in the plans are not required to make any payment to the Telstra Entity. The 24 December 2009 grant of Ownshares relates to shares acquired through salary sacrifice by employees.

The weighted average fair value of fully paid shares granted to directors and executives under the Directshare and Ownshare plans as at 30 June 2010 was $3.30 (2009: $4.08) and $3.41 (2009: $4.21) respectively. The total fair value of shares granted during 30 June 2010 was $71,087 (2009: $648,839) for the Directshare and $451,116 (2009: $2,721,513) for the Ownshare plan.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(c) Telstra Directshare and Ownshare (continued)

(iii) Summary of movements

The table below provides information about our Directshare and Ownshare plans:

	Number of equity instruments						
	Outstanding at 30 June 2008	Granted (*)	Distributed (^)	Outstanding at 30 June 2009	Granted (*)	Distributed (^)	Outstanding at 30 June 2010
Directshares							
5 September 2003 allocation	14,366	-	-	14,366	-	(4,841)	9,525
20 February 2004 allocation	15,435	-	-	15,435	-	(5,202)	10,233
20 August 2004 allocation	4,622	-	-	4,622	-	(1,867)	2,755
19 February 2005 allocation	15,704	-	-	15,704	-	(7,793)	7,911
19 August 2005 allocation	14,223	-	-	14,223	-	(8,975)	5,248
17 February 2006 allocation	22,022	-	-	22,022	-	(13,792)	8,230
18 August 2006 allocation	31,871	-	-	31,871	-	(19,528)	12,343
23 February 2007 allocation	34,114	-	-	34,114	-	(19,592)	14,522
17 August 2007 allocation	34,048	-	-	34,048	-	(18,705)	15,343
29 February 2008 allocation	51,433	-	-	51,433	-	(26,465)	24,968
21 August 2008 allocation	-	61,113	-	61,113	-	(24,755)	36,358
6 March 2009 allocation	-	97,797	-	97,797	-	(34,616)	63,181
21 August 2009 allocation	-	-	-	-	14,712	(8,399)	6,313
19 February 2010 allocation	-	-	-	-	6,809	-	6,809
	237,838	158,910	-	396,748	21,521	(194,530)	223,739
Ownshares							
19 August 2005 allocation	371,333	-	(371,333)	-	-	-	-
28 October 2005 allocation	215,715	-	(215,715)	-	-	-	-
18 August 2006 allocation	341,003	-	(38,936)	302,067	-	(302,067)	-
27 October 2006 allocation	152,996	-	(9,025)	143,971	-	(143,971)	-
27 September 2007 allocation	384,210	-	(27,579)	356,631	-	(36,203)	320,428
26 October 2007 allocation	174,384	-	(32,195)	142,189	-	(18,836)	123,353
15 September 2008 allocation	-	441,706	(24,426)	417,280	-	(63,963)	353,317
24 October 2008 allocation	-	205,341	(2,545)	202,796	-	(9,831)	192,965
24 December 2009 allocation	-	-	-	-	132,292	(2,642)	129,650
	1,639,641	647,047	(721,754)	1,564,934	132,292	(577,513)	1,119,713

(*) The number of Directshares granted is based on the monthly volume weighted average price of a Telstra share in the six months prior to allocation, in conjunction with the remuneration foregone. The number of Ownshares granted is based on the weighted average price of a Telstra share in the week ending on the day before the allocation date, in conjunction with the remuneration foregone.

(^) Directshares and Ownshares are not required to be exercised. The fully paid shares held by the Telstra Growthshare Trust relating to these instruments are transferred to the participants at the completion of the restriction period.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

TESOP99 and TESOP97

As part of the Commonwealth's sale of its shareholding in fiscal 2000 and fiscal 1998 we offered eligible employees the opportunity to buy ordinary shares of Telstra. These share plans were:

- the Telstra Employee Share Ownership Plan II (TESOP99); and
- the Telstra Employee Share Ownership Plan (TESOP97).

Although the Telstra ESOP Trustee Pty Ltd (wholly owned subsidiary of Telstra) is the trustee for TESOP99 and TESOP97 and holds the shares in the trust, the participating employee retains the beneficial interest in the shares (dividends and voting rights).

Generally, employees were offered interest free loans by the Telstra Entity to acquire certain shares and in some cases became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees.

While a participant remains an employee of the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, there is no date by which the employee has to repay the loan. The loan may, however, be repaid in full at any time by the employee using his or her own funds.

The loan shares, extra shares and in the case of TESOP99, the loyalty shares, were subject to a restriction on the sale of the shares or transfer to the employee for three years, or until the relevant employment ceased. This restriction period has now been fulfilled under each plan.

If a participant ceases to be employed by the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, the employee must repay their loan within two months of leaving to acquire the relevant shares. This is the case except where the restriction period has ended because of the employee's death or disablement (in this case the loan must be repaid within 12 months).

If the employee does not repay the loan when required, the trustee can sell the shares. The sale proceeds must then be used to pay the costs of the sale and any amount outstanding on the loan, after which the balance will be paid to the employee. The Telstra Entity's recourse under the loan is limited to the amount recoverable through the sale of the employee's shares.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

TESOP99 and TESOP97 (continued)

The Telstra ESOP Trustee continues to hold the loan shares where the employee has ceased employment and elected not to repay the loan, until the share price is sufficient to recover the loan amount and associated costs. The Trustee will then sell the shares. As at 30 June 2010, there were 8,831,000 shares held for this purpose (2009: 8,522,800).

The following table provides information about our TESOP99 and TESOP97 share plans:

	TESOP97			TESOP99		
	Number	Weighted average fair value (*)	Total fair value $m	Number	Weighted average fair value (*)	Total fair value $m
Equity instruments outstanding and exercisable as at 30 June 2008	28,769,250	$4.24	122	14,001,000	$4.24	59
Exercised	(3,096,750)	$3.77	(12)	(102,000)	$3.76	-
Equity instruments outstanding and exercisable as at 30 June 2009	25,672,500	$3.39	87	13,899,000	$3.39	47
Exercised	**(2,290,375)**	**$3.16**	**(7)**	**(56,400)**	**$3.16**	**-**
Equity instruments outstanding and exercisable as at 30 June 2010	**23,382,125**	**$3.25**	**76**	**13,842,600**	**$3.25**	**45**

(*) The fair value of these shares is based on the market value of Telstra shares at balance date and exercise date.

The employee share loan balance as at 30 June 2010 is $77 million (2009: $87 million). The weighted average loan still to be repaid for TESOP97 is $0.19 per instrument (2009: $0.40), and for TESOP99 is $5.28 per instrument (2009: $5.49).

Notes to the Financial Statements (continued)

28. Key management personnel compensation

Our key management personnel (KMP) have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. Our KMP consist of:

- the non-executive Directors of the Telstra Entity; and
- certain executives in the Chief Executive Officer's (CEO's) senior leadership team, including the CEO, referred to as a 'senior executive' in this note.

Directors

During fiscal 2010 and fiscal 2009, the Directors of the Telstra Entity were:

Name	Position
Current Directors	
Catherine B Livingstone	Chairman, Non-Executive Director
David I Thodey	Executive Director and Chief Executive Officer
John V Stanhope	Executive Director, Chief Financial Officer and Group Managing Director, Finance and Administration
Geoffrey A Cousins	Non-Executive Director
Russell A Higgins	Non-Executive Director (appointed on 15 September 2009)
John P Mullen	Non-Executive Director
John M Stewart	Non-Executive Director
John W Stocker	Non-Executive Director
Steven M Vamos	Non-Executive Director (appointed on 15 September 2009)
John D Zeglis	Non-Executive Director

Nora L Scheinkestel, was appointed as a Non-Executive Director on 12 August 2010.

Former Directors

Peter J Willcox, resigned as Non-Executive Director on 27 August 2009.

Charles Macek, ceased as Non-Executive Officer on 4 November 2009.

Senior executives

The senior executives that qualified as KMP for fiscal 2010 and fiscal 2009 were:

Name	Position
Current Senior Executives	
David I Thodey	Executive Director and Chief Executive Officer
John V Stanhope	Executive Director, Chief Financial Officer and Group Managing Director, Finance and Administration
Bruce Akhurst	Chief Executive Officer, Sensis
Nerida Caesar	Group Managing Director, Telstra Enterprise and Government
Paul Geason	Group Managing Director, Telstra Wholesale (KMP effective from 1 July 2009)
Kate McKenzie	Chief Marketing Officer, Chief Marketing Office (KMP effective from 29 March 2010)
Michael Rocca	Chief Operations Officer, Telstra Operations
Deena Shiff	Group Managing Director, Telstra Business
Glenice Maclellan	Acting Group Managing Director, Telstra Consumer (KMP effective from 9 November 2009)

Former Senior Executives

Justin Milne, Group Managing Director, Telstra Media, ceased being a KMP on 28 March 2010.

David Moffatt, resigned as Group Managing Director, Telstra Consumer, on 30 November 2009.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP aggregate compensation

During fiscal 2010 and fiscal 2009, the aggregate compensation provided to our KMP was:

	Telstra Group As at 30 June	
	2010 $	**2009 (*) $**
Short term employee benefits	**13,918,154**	14,358,611
Post employment benefits	**808,776**	801,433
Other long term benefits	**253,446**	202,051
Termination benefits	**1,004,949**	-
Share-based payments	**2,314,553**	6,543,640
	18,299,878	21,905,735

(*) Prior year comparative information has been restated to reflect the fiscal 2010 KMP.

In accordance with AASB 124 we have made the detailed remuneration disclosures in the Remuneration Report which is part of the Directors' Report. Please refer to the Remuneration Report for further details.

Other transactions with our KMP and their related entities

Our KMP have telecommunications services transactions with the Telstra Group, which are not significant and are both trivial and domestic in nature. The KMP related entities also have telecommunications services with us on normal commercial terms and conditions.

Our KMP are provided with telecommunications and other services and equipment to assist them in performing their duties. From time to time, we also make products and services available to our KMP without charge to enable them to familiarise themselves with our products, services and recent technological developments. To the extent it is considered a benefit to a KMP, it is included in their compensation.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in shares of Telstra Entity

During fiscal 2010, our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2009 (a)	Directshare allocation	Equity instruments exercised	Shares acquired or disposed of by other means	Total shares held at 30 June 2010 (b)	Shares that are held nominally (c)
	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Catherine B Livingstone	112,982	-	-	11,653	124,635	124,635
Geoffrey A Cousins	21,765	-	-	-	21,765	21,765
Charles Macek	223,155	8,400	-	-	231,555	225,987
John P Mullen	26,159	-	-	-	26,159	26,159
John M Stewart	9,031	-	-	-	9,031	9,031
John W Stocker	212,238	-	-	-	212,238	194,124
Peter J Willcox	91,334	-	-	-	91,334	91,334
John D Zeglis	40,871	13,122	-	-	53,993	37,493
Steven M Vamos	24,021	-	-	-	24,021	24,021
Russell A Higgins	22,992	-	-	-	22,992	17,672
	784,548	21,522	-	11,653	817,723	772,221
Senior Executives						
David I Thodey	495,588	-	-	-	495,588	386,590
John V Stanhope	437,067	-	-	-	437,067	168,918
Bruce Akhurst	166,999	-	-	-	166,999	159,219
Nerida Caesar	32,340	-	-	(13,000)	19,340	9,100
Paul Geason	6,260	-	-	2,700	8,960	5,800
Kate McKenzie	102,185	-	-	-	102,185	72,021
Justin Milne	199,886	-	-	-	199,886	80,851
David Moffatt	724,634	-	-	(299,500)	425,134	190,547
Michael Rocca	444,102	-	-	-	444,102	171,198
Deena Shiff	303,776	-	-	-	303,776	143,129
	2,912,837	-	-	(309,800)	2,603,037	1,387,373
	3,697,385	21,522	-	(298,147)	3,420,760	2,159,594

Total shareholdings include shares held by our KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed by our KMP during fiscal 2010 were on an arm's length basis at market price.

(a) For those non-executive Directors and senior executives who qualified as KMP during the year, represents shares held as at the date they became KMP.

(b) For those non-executive Directors and senior executives who retired from office during the year or no longer qualify as KMP as at 30 June 2010, represents shares held as at the date they retired or no longer qualified as KMP.

(c) Nominally refers to shares held either indirectly or beneficially. This includes those acquired under Directshare as well as certain incentive shares issued to our KMP that vest immediately. These shares are subject to a restriction period, such that the non-executive Director or senior executive is restricted from dealing with the shares until after they are released from the restriction period. Refer to note 27 for further details.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in shares of Telstra Entity (continued)

During fiscal 2009, our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2008 (a)	Directshare allocation	Equity instruments exercised	Shares acquired or disposed of by other means	Total shares held at 30 June 2009 (b)	Shares that are held nominally (c)
	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Catherine B Livingstone	100,461	12,521	-	-	112,982	112,982
Geoffrey A Cousins	9,979	11,786	-	-	21,765	21,765
Charles Macek	214,178	14,477	-	(5,500)	223,155	217,587
John P Mullen	-	26,159	-	-	26,159	26,159
John M Stewart	-	9,031	-	-	9,031	9,031
John W Stocker	183,004	29,234	-	-	212,238	194,123
Peter J Willcox	67,836	13,498	-	10,000	91,334	91,334
John D Zeglis	30,063	10,808	-	-	40,871	24,371
Donald G McGauchie	135,205	31,394	-	-	166,599	128,208
	740,726	158,908	-	4,500	904,134	825,560
Senior Executives						
Solomon D Trujillo	901,608	-	-	689,171	1,590,779	1,340,779
David I Thodey	270,835	-	141,211	83,542	495,588	386,590
John V Stanhope	227,959	-	126,619	82,489	437,067	168,918
Bruce Akhurst	65,934	-	227,764	(126,699)	166,999	159,219
Nerida Caesar	32,340	-	-	-	32,340	22,100
Kate McKenzie	52,846	-	7,201	33,138	93,185	72,021
Justin Milne	199,886	-	-	-	199,886	80,851
David Moffatt	465,428	-	164,501	94,705	724,634	190,547
Michael Rocca	544,102	-	-	(100,000)	444,102	171,198
Deena Shiff	154,298	-	81,060	68,418	303,776	143,129
	2,915,236	-	748,356	824,764	4,488,356	2,735,352
	3,655,962	158,908	748,356	829,264	5,392,490	3,560,912

Total shareholdings include shares held by our KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed by our KMP during fiscal 2009 were on an arm's length basis at market price.

(a) For those non-executive Directors and senior executives who qualified as KMP during fiscal 2009, represents shares held as at the date they became KMP.

(b) For those non-executive Directors and senior executives who retired from office during fiscal 2009 or no long qualify as KMP as at 30 June 2009 represents shares held as at the date they retired or no longer qualified as KMP.

(c) Nominally refers to shares held either indirectly or beneficially. This includes those acquired under Directshare as well as certain incentive shares issued to our KMP that vest immediately. These shares are subject to a restriction period, such that the non-executive Director or senior executive is restricted from dealing with the shares until after they are released from the restriction period. Refer to note 27 for further details.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in rights, options and restricted shares of Telstra Entity

The following details the balances and changes in instruments issued for our KMP during fiscal 2010:

Instrument type Senior Executive	Total held at 30 June 2009 (a) Number	Granted during the year Number	Exercised during the year Number	Other changes (b) Number	Total held at 30 June 2010 (c) Number	Vested and exercisable at 30 June 2010 (c) Number	Vested during the year Number
Performance rights							
David I Thodey	95,246	-	-	(85,721)	9,525	9,525	9,525
John V Stanhope	90,765	-	-	(81,687)	9,078	9,078	9,078
Bruce Akhurst	103,068	-	-	(92,761)	10,307	10,307	10,307
Kate McKenzie (a)	50,017	-	-	(35,010)	15,007	15,007	3,891
Justin Milne (c)	46,129	-	-	-	46,129	-	-
David Moffatt (c)	104,824	-	-	-	104,824	-	-
Michael Rocca	90,942	-	-	(81,847)	9,095	9,095	9,095
Deena Shiff	70,293	-	-	(63,264)	7,029	7,029	7,029
Options							
David I Thodey	8,671,491	-	-	(6,091,573)	2,579,918	786,174	252,174
John V Stanhope	6,502,618	-	-	(4,639,005)	1,863,613	440,998	199,998
Bruce Akhurst	9,385,487	-	-	(6,564,087)	2,821,400	888,739	271,739
Nerida Caesar	1,060,624	-	-	(754,978)	305,646	37,565	37,565
Paul Geason (a)	829,500	-	-	(551,143)	278,357	81,392	27,392
Glenice Maclellan (a)	881,685	-	-	(630,323)	251,362	30,718	-
Kate McKenzie (a)	2,661,761	-	-	(1,908,840)	752,921	91,304	-
Justin Milne (c)	3,033,715	-	-	(94,578)	2,939,137	101,085	101,085
David Moffatt (c)	9,724,691	-	-	(288,988)	9,435,703	285,867	285,867
Michael Rocca	8,185,152	-	-	(5,894,878)	2,290,274	511,999	249,999
Deena Shiff	6,621,922	-	-	(4,754,457)	1,867,465	384,522	206,522
Restricted shares							
David I Thodey	279,357	1,098,900	-	(83,807)	1,294,450	-	-
John V Stanhope	221,560	758,242	-	(66,468)	913,334	-	-
Bruce Akhurst	300,917	720,878	-	(90,275)	931,520	-	-
Nerida Caesar	42,010	439,560	-	(12,603)	468,967	-	-
Paul Geason (a)	31,307	214,286	-	(9,392)	236,201	-	-
Glenice Maclellan (a)	35,000	83,850	-	(10,500)	108,350	-	-
Kate McKenzie (a)	395,113	-	-	(31,995)	363,118	-	-
Justin Milne (c)	117,317	281,044	-	-	398,361	-	-
David Moffatt (c)	316,743	-	-	-	316,743	-	-
Michael Rocca	276,950	663,462	-	(83,085)	857,327	-	-
Deena Shiff	235,093	563,186	-	(70,528)	727,751	-	-

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in rights, options and restricted shares of Telstra Entity (continued)

Instrument type Senior Executive	Total held at 30 June 2009 (a) Number	Granted during the year Number	Exercised during the year Number	Other changes (b) Number	Total held at 30 June 2010 (c) Number	Vested and exercisable at 30 June 2010 (c) Number	Vested during the year Number
Incentive shares rights (d)							
David I Thodey	-	-	-	-	-	-	-
John V Stanhope	-	-	-	-	-	-	-
Bruce Akhurst	-	-	-	-	-	-	-
Kate McKenzie (a)	518	-	-	-	518	518	-
David Moffatt (c)	22,587	1,982	-	-	24,569	24,569	-
Deena Shiff	-	-	-	-	-	-	-
Justin Milne (c)	-	-	-	-	-	-	-
Michael Rocca	-	-	-	-	-	-	-
TESOP97							
John V Stanhope	2,500	-	-	-	2,500	2,500	-
Bruce Akhurst	2,500	-	-	-	2,500	2,500	-
Michael Rocca	2,500	-	-	-	2,500	2,500	-
TESOP99							
John V Stanhope	400	-	-	-	400	400	-
Bruce Akhurst	400	-	-	-	400	400	-
Deena Shiff	400	-	-	-	400	400	-

(a) For those senior executives who qualified as KMP during the year, represents equity instruments held as at the date they became KMP.

(b) During fiscal 2010, other changes for our performance rights,options and restricted shares are a result of instruments expiring due to the specified performance hurdles not being achieved or instruments forfeiting due to KMP retiring during the year.

(c) For those senior executives who retired from office during the year or no longer qualify as KMP at 30 June 2010, represents equity instruments held as at the date they retired or no longer qualified as KMP.

(d) Excludes incentives shares that vest immediately and are beneficially owned by the KMP. “Granted” for incentive shares rights relate to additional incentive shares provided to our senior executives. Any dividends paid by the Company prior to the exercise of their incentives shares will increase the number of Telstra shares allocated to the senior executives when the vested incentive shares are exercised. Refer to note 27 for further details.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in rights, options and restricted shares of Telstra Entity (continued)

The following details the balances and changes in instruments issued for our KMP during fiscal 2009:

Instrument type	Total held at 30 June 2008 (a)	Granted during the year	Exercised during the year	Other changes (b)	Total held at 30 June 2009 (c)	Vested and exercisable at 30 June 2009 (c)	Vested during the year
Senior Executive	**Number**	**Number**	**Number**	**Number**	**Number**	**Number**	**Number**
Performance rights							
David I Thodey	231,918	-	(123,064)	(13,608)	95,246	-	89,814
John V Stanhope	209,216	-	(105,484)	(12,967)	90,765	-	75,334
Bruce Akhurst	251,640	-	(133,848)	(14,724)	103,068	-	97,848
Kate McKenzie (c)	64,576	-	-	(5,559)	59,017	20,116	11,116
Justin Milne (a)	46,129	-	-	-	46,129	-	-
David Moffatt	262,450	-	(142,650)	(14,976)	104,824	-	106,050
Michael Rocca (a)	90,942	-	-	-	90,942	-	-
Deena Shiff	135,420	-	(55,084)	(10,043)	70,293	-	42,584
Solomon D Trujillo (c)	836,821	-	-	(228,732)	608,089	167,364	167,364
Options							
David I Thodey	7,965,160	881,331	-	(175,000)	8,671,491	534,000	-
John V Stanhope	5,936,390	698,987	-	(132,759)	6,502,618	241,000	-
Bruce Akhurst	8,624,715	949,350	-	(188,578)	9,385,487	617,000	-
Nerida Caesar (a)	928,085	132,539	-	-	1,060,624	-	-
Kate McKenzie (c)	2,467,533	-	-	(56,573)	2,410,960	-	-
Justin Milne (a)	2,663,599	370,116	-	-	3,033,715	-	-
David Moffatt	8,916,255	999,277	-	(190,841)	9,724,691	740,000	-
Michael Rocca (a)	7,311,419	873,733	-	-	8,185,152	262,000	-
Deena Shiff	6,016,019	741,679	-	(135,776)	6,621,922	178,000	-
Solomon D Trujillo (c)	15,517,242	5,172,414	-	(8,793,104)	11,896,552	6,724,138	6,724,138
Restricted shares							
David I Thodey	-	279,357	-	-	279,357	-	-
John V Stanhope	-	221,560	-	-	221,560	-	-
Bruce Akhurst	-	300,917	-	-	300,917	-	-
Nerida Caesar (a)	-	42,010	-	-	42,010	-	-
Justin Milne (a)	-	117,317	-	-	117,317	-	-
David Moffatt	-	316,743	-	-	316,743	-	-
Michael Rocca (a)	-	276,950	-	-	276,950	-	-
Deena Shiff	-	235,093	-	-	235,093	-	-

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in rights, options and restricted shares of Telstra Entity (continued)

Instrument type Senior Executive	Total held at 30 June 2008 (a) Number	Granted during the year Number	Exercised during the year Number	Other changes (b) Number	Total held at 30 June 2009 (c) Number	Vested and exercisable at 30 June 2009 (c) Number	Vested during the year Number
Incentive shares rights (d)							
David I Thodey	18,147	-	(18,147)	-	-	-	18,147
John V Stanhope	21,135	-	(21,135)	-	-	-	21,135
Bruce Akhurst	93,916	-	(93,916)	-	-	-	93,916
Kate McKenzie (c)	7,641	14	(7,201)	-	454	454	7,201
David Moffatt	43,702	736	(21,851)	-	22,587	22,587	21,851
Deena Shiff	25,976	-	(25,976)	-	-	-	25,976
TESOP97							
John V Stanhope	2,500	-	-	-	2,500	2,500	-
Bruce Akhurst	2,500	-	-	-	2,500	2,500	-
Michael Rocca (a)	2,500	-	-	-	2,500	2,500	-
TESOP99							
John V Stanhope	400	-	-	-	400	400	-
Bruce Akhurst	400	-	-	-	400	400	-
Deena Shiff	400	-	-	-	400	400	-

(a) For those senior executives who qualified as KMP during the year, represents equity instruments held as at the date they became KMP.

(b) During fiscal 2009, other changes for our performance rights and options are a result of instruments expiring due to the specified performance hurdles not being achieved or instruments forfeiting due to KMP retiring during the year.

(c) For those senior executives who retired from office during the year or no longer qualify as KMP at 30 June 2009, represents equity instruments held as at the date they retired or no longer qualified as KMP.

(d) Excludes incentives shares that vest immediately and are beneficially owned by the KMP. “Granted” for incentive shares rights relate to additional incentive shares provided to our senior executives. Any dividends paid by the Company prior to the exercise of their incentives shares will increase the number of Telstra shares allocated to the senior executives when the vested incentive shares are exercised. Refer to note 27 for further details.

Notes to the Financial Statements (continued)

29. Related party disclosures

Transactions involving our controlled entities

Interests in controlled entities are set out in note 25. Our transactions with our controlled entities recorded in the income statement and statement of financial position are as follows:

	Telstra Entity Year ended/As at 30 June	
	2010 $m	2009 $m
Income from controlled entities:		
Sale of goods and services (a)	**1,124**	1,151
Finance income (a)	**-**	1
Dividend revenue (b)	**105**	146
Expenses to controlled entities:		
Purchase of goods and services (a)	**402**	427
Finance costs (a)	**6**	11
Total amounts receivable at 30 June from:		
Current		
Controlled entities (a) (d)	**3,599**	3,168
Allowance for amounts owed by controlled entities	**(2,665)**	(2,487)
	934	681
Non current		
Controlled entities (a)	**176**	179
Movement in allowance for amounts owed by controlled entities:		
Opening balance	**(2,487)**	(2,267)
Impairment loss (c)	**(178)**	(220)
Closing balance	**(2,665)**	(2,487)
Total amounts payable at 30 June to:		
Current		
Controlled entities - payables (a) (d)	**238**	189
Controlled entities - loans (e)	**1,305**	1,106
	1,543	1,295

(a) The Telstra Entity sold and purchased goods and services and received and paid interest to its controlled entities. These transactions are in the ordinary course of business and are on normal commercial terms and conditions.

Details of our individual significant transactions involving our controlled entities during fiscal 2010 are detailed as follows:

- the Telstra Entity received procurement fees from its controlled entity Sensis Pty Ltd for the use of Yellow Pages™ and White Pages® trademarks amounting to $622 million (2009: $667 million). As at 30 June 2010, the Telstra Entity recorded revenue received in advance amounting to $225 million (2009: $275 million) for the use of these trademarks;
- the Telstra Entity paid management fees to its controlled entity Sensis Pty Ltd amounting to $311 million (2009: $324 million) for undertaking agency and contract management services for the national directory service; and
- the Telstra Entity received income from its controlled entity Telstra Multimedia Pty Ltd amounting to $339 million (2009: $331 million) for access to ducts that store the hybrid fibre coaxial (HFC) cable network.

(b) The Telstra Entity recorded dividend revenue of $60 million (2009: $100 million) from Telstra Media Pty Limited, $29 million (2009: $46 million) from Telstra Holdings Pty Ltd and $16 million (2009: nil) from Telstra Business Systems Pty Ltd during fiscal 2010.

(c) The profit before income tax expense of the Telstra Entity includes an impairment loss of $178 million (2009: $220 million) relating to a movement in allowance for amounts owed by a controlled entity.

(d) The Telstra Entity and its Australian controlled entities have formed a tax consolidated group, with a tax funding arrangement currently in place. The amounts receivable or amounts payable to the Telstra Entity under this arrangement are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group. Refer to note 9 for further details.

(e) The Telstra Entity operates a current account with some of its Australian controlled entities, being an internal group bank account used to settle transactions with its controlled entities or between two controlled entities. Cash deposit balances in the current account owed to our controlled entities are recorded as loans. All loan balances with our controlled entities are unsecured, with settlement required in cash.

Notes to the Financial Statements (continued)

29. Related party disclosures (continued)

Transactions involving our jointly controlled and associated entities

Interests in our jointly controlled and associated entities are set out in note 26. Our transactions with our jointly controlled and associated entities recorded in the income statement and statement of financial position are as follows:

	Telstra Group Year ended/As at 30 June	
	2010 $m	2009 $m
Income from jointly controlled and associated entities:		
Sale of goods and services (a)	**200**	214
Distribution from FOXTEL Partnership (b)	**60**	100
Expenses to jointly controlled and associated entities:		
Purchase of goods and services (a)	**918**	844
Total amounts receivable at 30 June from:		
Current		
Jointly controlled and associated entities - trade receivables (a)	**10**	13
Non current		
Jointly controlled and associated entities - loans (c)	**219**	229
Allowance for amounts owed by jointly controlled and associated entities (c)	**(182)**	(191)
	37	38
Movement in allowance for amounts owed by jointly controlled and associated entities:		
Opening balance	**(191)**	(161)
Foreign currency exchange differences	**9**	(30)
Closing balance	**(182)**	(191)
Total amounts payable at 30 June to:		
Current		
Jointly controlled and associated entities - payables (a)	**6**	7

(a) We sold and purchased goods and services, and received interest from our jointly controlled and associated entities. These transactions were in the ordinary course of business and on normal commercial terms and conditions.

Details of our individual significant transactions involving our jointly controlled and associated entities during fiscal 2010 are detailed as follows:

- we purchased pay television services amounting to $539 million (2009: $428 million) from our jointly controlled entity FOXTEL. The purchases were to enable the resale of FOXTEL services, including pay television content, to our existing customers as part of our ongoing product bundling initiatives. In addition, we made sales to FOXTEL for our cost recoveries of $84 million (2009: $75 million);
- purchases were made by the Telstra Group of $270 million (2009: $308 million) from our jointly controlled entity Reach Ltd (Reach) in line with market prices. These were for the purchase of, and entitlement to, capacity and connectivity services; and
- sales to Reach were made for international inbound call termination services, construction and consultancy by the Telstra Group of $59 million (2009: $69 million).

(b) A $60 million (2009: $100 million) distribution was received from our jointly controlled entity FOXTEL during the year.

(c) Loans provided to jointly controlled and associated entities relates mainly to loans provided to Reach of $182 million (2009: $191 million) and the 3GIS Partnership (3GIS) of $37 million (2009: $38 million).

The loan provided to Reach is an interest free loan and repayable upon the giving of twelve months notice by both PCCW Limited and us. We have provided for the non-recoverability of the loan as we do not consider that Reach is in a position to be able to repay the loan amount in the medium term.

The loan provided to 3GIS represents interest free funding for operational expenditure purposes. In accordance with the partnership agreement, the loan is repayable on dissolution of the partnership and is at call.

Notes to the Financial Statements (continued)

29. Related party disclosures (continued)

Transactions involving other related entities

Post-employment benefits

As at 30 June 2010, Telstra Superannuation Scheme (Telstra Super) owned 34,455,614 shares in Telstra Corporation Limited (2009: 23,066,594) at a cost of $118 million (2009: $87 million) and a market value of $112 million (2009: $78 million). All of these shares were fully paid at 30 June 2010. In fiscal 2010, we paid dividends to Telstra Super of $8 million (2009: $7 million). We own 100% of the equity of Telstra Super Pty Ltd, the trustee of Telstra Super.

Telstra Super also held bonds issued by Telstra Corporation Limited. These bonds had a cost of $5 million (2009: $6 million) and a market value of $5 million (2009: $6 million) at 30 June 2010.

All purchases and sales of Telstra shares and bonds by Telstra Super are determined by the trustee and/or its investment managers on behalf of the members of Telstra Super.

Key management personnel (KMP)

For details regarding our KMP's remuneration and interests in Telstra, as well as other related party transactions, refer to note 28.

Notes to the Financial Statements (continued)

30. Parent entity information

	Telstra Entity As at 30 June	
	2010 $m	2009 $m
Statement of Financial Position		
Total current assets	**6,362**	5,577
Total non current assets (a)	**32,946**	34,139
Total assets	**39,308**	39,716
Total current liabilities	**9,321**	7,966
Total non current liabilities	**17,342**	19,411
Total liabilities	**26,663**	27,377
Share capital	**5,590**	5,576
Cashflow hedging reserve	**157**	92
General reserve	**194**	194
Retained profits	**6,705**	6,477
Total Equity	**12,646**	12,339

	Telstra Entity Year ended 30 June	
	2010 $m	2009 $m
Statement of Comprehensive Income		
Profit for the year (a)	**3,811**	3,975
Total comprehensive income	**3,767**	3,526

(a) Includes $404 million (2009: $274 million) of impairment losses relating to the value of our investments in and amounts owed by our controlled entities. The impairment losses have been eliminated on consolidation of the Telstra Group.

Except for those noted below, our accounting policies for the Telstra Entity are consistent with those for the Telstra Group:

- Under our tax funding arrangements, amounts receivable (or payable) recognised by the Telstra Entity for the current tax payable (or receivable) assumed of our wholly owned entities are booked as current assets or liabilities.
- Investments in controlled entities, included within non current assets above, are recorded at cost less impairment of the investment value. Where we hedge the value of our investment in an overseas controlled entity, the hedge is accounted for in accordance with note 2.22. Refer to note 25 for details on our investments in controlled entities.
- Our interests in associated and jointly controlled entities, including partnerships, are accounted for using the cost method of accounting and are included within non current assets in the table above.

Property, plant and equipment commitments

	Telstra Entity As at 30 June	
	2010 $m	2009 $m
Within 1 year	**412**	541
Within 1 to 5 years	**166**	35
	578	576

Contingent liabilities and guarantees

Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2010, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows. The maximum amount of these contingent liabilities cannot be reasonably estimated.

Included in our common law claims is the following litigation case:

Exchange Capping

On 19 March 2009 the ACCC issued proceedings against Telstra in the Federal Court of Australia in relation to 30 separate refusals by Telstra to provide competitors with access to main distribution frame facilities in seven of Telstra's telephone exchanges between January 2006 and February 2008. We accepted liability in relation to a number of the allegations made by the ACCC in these proceedings. On 28 July 2010 the Federal Court handed down judgement in which the Court decided to make declarations that Telstra had breached its legal obligations and should pay a total penalty of $18.55 million.

Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support, through the Telstra Entity, as follows:

- Indemnities to financial institutions to support bank guarantees to the value of $291 million (2009: $309 million) in respect of the performance of contracts;

Notes to the Financial Statements (continued)

30. Parent entity information (continued)

Contingent liabilities and guarantees (continued)

Indemnities, performance guarantees and financial support (continued)

- Indemnities to financial institutions in respect of the obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose was $286 million (2009: $263 million);

- Financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling $73 million (2009: $28 million) and a requirement that the entity remains our controlled entity;

- Guarantees of the performance of jointly controlled entities under contractual agreements to a maximum amount of $12 million (2009: $14 million);

- Guarantees over the performance of third parties under defeasance arrangements, whereby lease payments are made on our behalf by the third parties over the remaining terms of the finance leases. The lease payments over the remaining expected term of the leases amount to $319 million (US$272 million) (2009: $522 million (US$424 million)). In fiscal 2010, we exercised our early buyout option to terminate a portion of the leases that commenced in 1999 and 2000. We still hold an early buyout option for the remaining leases; and

- During fiscal 1998, we resolved to provide IBM Global Services Australia Limited (IBMGSA) with guarantees issued on a several basis up to $210 million as a shareholder of IBMGSA. We issued a guarantee of $68 million on behalf of IBMGSA during fiscal 2000. During fiscal 2004, we sold our shareholding in this entity. The $68 million guarantee is provided to support service contracts entered into by IBMGSA and third parties, and was made with IBMGSA bankers, or directly to IBMGSA customers. As at 30 June 2010, this guarantee has still been provided and $142 million (2009: $142 million) of the $210 million guarantee facility remains unused.

  Upon sale of our shareholding in IBMGSA and under the deed of indemnity between shareholders, our liability under these performance guarantees has been indemnified for all guarantees that were in place at the time of sale. Therefore, the overall net exposure to any loss associated with a claim has effectively been offset.

Notes to the Financial Statements (continued)

31. Events after balance date

We are not aware of any matter or circumstance that has occurred since 30 June 2010 that, in our opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

Final Dividend

On 12 August 2010, the directors of Telstra Corporation Limited resolved to pay a fully franked final dividend of 14 cents per ordinary share. The record date for the final dividend will be 27 August 2010 with payment being made on 24 September 2010. Shares will trade excluding the entitlement to the dividend on 23 August 2010.

A provision for dividend payable has been raised as at the date of resolution, amounting to $1,737 million. The final dividend will be fully franked at a tax rate of 30%. The financial effect of the dividend resolution was not brought to account as at 30 June 2010.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the final ordinary dividend, except for $745 million franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

The Dividend Reinvestment Plan (DRP) continues to be suspended.

ACCC Proceedings Outcome

On 28 July 2010 the Federal Court of Australia handed down its decision in proceedings commenced by the ACCC against us on 19 March 2009 in respect of 30 separate refusals to provide access to main distribution frame facilities in seven of Telstra's exchanges between January 2006 and February 2008. We accepted liability in the proceedings in relation to a number of the allegations. The Federal Court decided to make declarations that Telstra breached its legal obligations and should pay a total penalty of $18.55 million. Telstra has indicated publicly that it will not appeal the decision.

Directors' Declaration

This directors' declaration is required by the Corporations Act 2001 of Australia.

The directors of Telstra Corporation Limited have made a resolution that declared:

(a) the financial statements and notes of the Telstra Group set out on pages 77 to 201:

(i) comply with the Accounting Standards applicable in Australia, International Financial Reporting Standards and Interpretations, and Corporations Regulations;

(ii) give a true and fair view of the financial position as at 30 June 2010 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2010; and

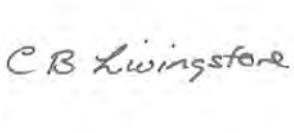
(iii) have been made out in accordance with the Corporations Act 2001.

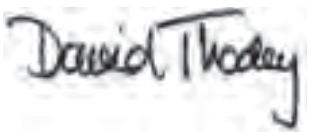
(b) they have received declarations as required by section 295A of the Corporations Act 2001;

(c) at the date of this declaration, in the directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable in Australia; and

(d) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 25(a) to the full financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 25(a).

For and on behalf of the board





Catherine B Livingstone
Chairman

David I Thodey
Chief Executive Officer and Executive Director

Date: 12 August 2010
Melbourne, Australia

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Independent Auditor's Report to the Members of Telstra Corporation Limited

Report on the Financial Report

We have audited the accompanying financial report of Telstra Corporation Limited, which comprises the statement of financial position as at 30 June 2010, income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Telstra Corporation Limited is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 61 to 76 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Telstra Corporation Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Sean C Van Gorp
Partner

12 August 2010
Melbourne, Australia

Liability limited by a scheme approved
under Professional Standards Legislation

(This page has been left blank intentionally)

CONTACT DETAILS & FINANCIAL CALENDAR

Contact details

Registered Office
Level 41, 242 Exhibition Street
Melbourne Victoria 3000 Australia

Carmel Mulhern
Company Secretary
email: companysecretary@team.telstra.com

General Enquiries – Registered Office
Australia: 1300 368 387
All Other: +61(8) 8308 1721

Shareholder Enquiries
Australian Share Register:
Australia: 1300 88 66 77
All Other: +61(2) 8280 7756
Fax: +61(2) 9287 0303
email: telstra@linkmarketservices.com.au
website: www.linkmarketservices.com.au

Link Market Services Limited
PO Box A942
Sydney South NSW 1234 Australia

New Zealand Share Register:
New Zealand: 0800 835 7872
All Other: +64 (3) 308 8887
Fax: +64 (3) 308 1311
email: lmsenquiries@linkmarketservices.com
website: www.linkmarketservices.com

Link Market Services Limited
PO Box 384
Ashburton 7740
New Zealand

Investor Relations
Level 36, 242 Exhibition Street
Melbourne Victoria 3000 Australia
Australia: 1800 880 679
All Other: +61(3) 8647 4954
email: investor.relations@team.telstra.com

Telstra Corporation Limited
ABN 33 051 775 556
Incorporated in the Australian Capital Territory
Telstra is listed on Stock Exchanges in Australia and in New Zealand (Wellington)

Website
Telstra's investor relations home page:
www.telstra.com.au/abouttelstra/investor

Indicative Financial Calendar*

Annual General Meeting (Melbourne)	Friday 19 November 2010
Half Year Results announcement	Thursday 10 February 2011
Ex-dividend share trading commences	Monday 21 February 2011
Record date for interim dividend	Friday 25 February 2011
Interim dividend paid	Friday 25 March 2011
Annual Results announcement	Thursday 11 August 2011
Ex-dividend share trading commences	Monday 22 August 2011
Record date for final dividend	Friday 26 August 2011
Final dividend paid	Friday 23 September 2011
Annual General Meeting (Brisbane)	Tuesday 18 October 2011

* Timing of events may be subject to change. Any change will be notified to the Australian Securities Exchange (ASX)

Visit Telstra Investor Relations at www.telstra.com.au/abouttelstra/investor